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**THE USE OF SUBSIDIARY BOARD OF DIRECTORS
AS A MANAGEMENT CONTROL TOOL**

by:

**George A. Nnensa
B.Soc.Sc. 1982**

**A Thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for a degree of
Masters of Management Studies**

**School of Business
Carleton University
Ottawa, Ontario, Canada**

4th August, 1995

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Thesis Supervisor

Director, School of Business

**School of Business
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Ottawa, Ontario, Canada**

7th February, 1996

ABSTRACT

This study compared the composition, functions and effectiveness of boards of directors of subsidiaries of multinational enterprises (MNEs) and local companies (LOCs) operating in Malawi. The organization's decision making processes, the individual board member's qualities, the influence that the individuals and the board as a whole, exert in making strategic and operational decisions affecting the subsidiary were also examined. Personal interviews were conducted in Malawi with thirty-four executives in order to collect data for the study.

The research, amongst others, concluded that the effectiveness and size of boards of directors were largely dependent on the ownership pattern. The amount of influence the board exerted in strategic decisions was not directly related to board diversity. Business and environmental experience were ranked the most important qualities for individual effectiveness of board members. Although it was found that MNE boards held fewer meetings and their directors spent less time attending to company business than LOC directors, their levels of effectiveness were not different.

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I am also indebted to the cooperation of the unidentified CEOs in Malawi who were willing to take part in this study, whose participation made this study possible. To all of them, I owe much awareness of the findings in the study.

I dedicate this research to my two children, Veronica and Andrew, whose lives have permanently been affected as a result of my pursuance of this academic dream.

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Chapter 1: INTRODUCTION

The advancement of telecommunication and transportation has enabled business organizations to expand their operations in a number of countries and is turning the world into one global market [Jeannot and Hennessey, 1992]. Many organizations that were operating locally have expanded into other countries in order to take advantage of the now available global markets. Expanding business across national borders has also been necessitated by the saturation of domestic markets, competitive pressures and the advantages of economies of scale. This has, in turn, presented new control and managerial challenges to government and business managers [Goehle, 1980].

Subsidiaries of multinational enterprises (MNEs) operating abroad have become more important in the past twenty years because many companies have been deriving large shares of their sales and profit from their overseas operations and also have large shares of their assets invested abroad [Prahalad and Doz, 1981]. Overseas markets also have higher growth potential than local markets. This is despite of the fact that business risk may be much higher overseas, especially in developing countries, than in the home market. These factors make it imperative to closely examine methods that can be employed to control the multinationals' subsidiaries in order to minimise business risks.

country nationals. They found that age predicted organizational commitment more accurately than nationality.

Where nationals other than home country nationals are placed in key positions, they are indoctrinated in order to ensure loyalty to parent company objectives. This is done through the secondment of managers to the head office or other subsidiaries of the organization. This is called control by socialization [Brinkerhoff and Kunz, 1972; Edstrom and Galbraith, 1977]. Baliga and Jaeger [1984] labelled this type of control, as it is practised in Japanese firms, a corporate cultural control.

Unlike bureaucratic control, subsidiary managers in this type of organization are expected to be independent and be able to make decisions based on the organizational cultural guidelines. Control by socialization complements and lessens the dependency on the formal bureaucratic channels of control.

2.1.3 resources control

A high level of control can be exerted on the subsidiary through its dependency on the parent company for critical resources [Prahalad and Doz, 1981]. These resources include finance, raw materials, technology and technical expertise. Management resources as described above may also be included in this category but have been covered separately

knowledge of the environment in which the organization is operating. This does not necessarily replace, but may supplement, other methods of controlling the subsidiary from the head office.

The aim of this research is to provide more insight into the roles of the subsidiary BODs of MNEs and how they can be used to improve the control of the MNE subsidiaries.

This study looks at the challenges facing multinational enterprises in coordinating and controlling the activities of the subsidiary companies in order to maximize the goals of the MNE as a whole. Various methods that are used to control the subsidiary operation are briefly covered. The main focus of this study is to examine the role that subsidiary BODs play as management resources to the management of the subsidiary organization, in addition to the various control methods that are applied more often.

Chapter 2: LITERATURE REVIEW

This chapter outlines relevant literature related to the control of MNE subsidiaries and the role of boards of directors. The topics covered include: the various methods used in the control of MNE subsidiaries, the functions, representation on and composition of boards of directors and the influence that they exert in the strategic and operational management of the subsidiary company.

2.1 Organizational Control

Organizational control may be defined as "the direction and the integration of organizational efforts for the accomplishment of goals at various levels" of the organization [Negandhi and Prasad, 1975:81]. This encompasses (1) overall evaluation of the strategic plan, organizational activities and results (strategic control), and (2) target-setting, performance measurement, comparison of performance against standards and feedback (operational control) [Daft, 1989]. In a business setting, objectives, programs, budgets and procedures serve as a guide to members of organizations towards meeting organizational goals and are used to measure performance.

The operational definition of control which will be used in this thesis is a broad one. Control will include all functions of management and not only in the practical sense "...

of checking existing action against some desired results determined in the planning process" [Negandhi and Prasad, 1975:81].

There are a number of ways in which organizations control subsidiaries. These include bureaucratic or structural control which involves the setting up and enforcing of organizational structures, periodic reporting structures, rules and regulations [Daft, 1989], human resource management [Snell, 1992] through the selection and staffing policy for the subsidiaries [Edstrom and Galbraith, 1977; Ronen 1986], through the control of various resources [Prahalad and Doz, 1981] and the use of boards of directors. These control methods will now be covered in more detail.

2.1.1. bureaucratic/structural control

The two dominant structural methods of organizational control are centralization and decentralization. These represent "forms of structural arrangement by which power and other organization resources are distributed to facilitate the efficient and effective performance and coordination of the organization's critical operating and strategic management tasks" [Kiggundu, 1989:228].

Decentralised organizations are those whose power and authority are extended throughout the organizational hierarchy. They give a lot of autonomy to local managers to make most

business decisions without referring to the head office [Steers, 1981]. In an MNE, subsidiary managers will have both the freedom and responsibility to formulate strategy within the national territory of their location [Leontiades, 1985] and refer to the head office only on exceptional strategic decisions that will have a major or long term impact on the subsidiary operation. However, the policies formulated locally should be in line with the overall company policy which guides the local operation. Head office managers will be primarily interested in the local operation in terms of overall success factors such as turnover, profitability, growth, or market share.

In centralized organizations, power and authority reside in the head office. This, for most MNEs, will be in the home country. For companies that are organized on a regional basis, each subsidiary will report to a regional head office and it, in turn, will report to the corporate head office. The local managers simply carry out instructions issued by the head office managers and report back the results. Local managers make few decisions of their own and they normally follow written rules and instructions which stipulate their levels of authority. They consult the head office on most strategic decisions as well as operational decisions on which they have no specific instructions.

There are no companies that are either totally centralized or decentralised. These two methods are extremes on a continuum and organizations will adopt a position in between.

The system adopted by an organization will depend on factors such as the size of the firm, management ability, time constraints, profitability, the age of the subsidiary and the degree of national and international diversity of the operation [Goehle, 1980]. According to Goehle, firms that are large, or have low local management capability, or are young, or are less profitable or are not diversified, will be more centralised and vice versa. But these attributes will apply in different degrees to different firms and require a balancing act on the part of the head office management team. The difference in the type of structural control of subsidiaries between companies will be in the degree to which they are either centralized or decentralized.

Centralization and decentralization also define the amount of delegation of authority that is practised in the organization. Centralized firms will generally have less power delegated to the lower levels of management than decentralized firms.

Bureaucratic control relies heavily on the conformance of the managers to the codified rules and regulations. Therefore, managers in organizations that use bureaucratic control are selected on the basis of their conformity to rules and regulations and not their independence and creativity in making decisions [Baliga and Jaeger, 1984].

2.1.2 staffing method

Apart from the structural method of control, control of the subsidiaries can be executed through the subsidiary staffing policy which head office management will adopt. Ronen [1986] classified the staffing policies of subsidiaries of multinationals into four categories:

- (i) ethnocentric : key managerial positions in the subsidiary are held by home country nationals
- (ii) polycentric : key managerial positions in the subsidiary are held by host country nationals
- (iii) regiocentric: prime positions in the subsidiary are held by nationals within the host region
- (iv) geocentric : nationality does not make a difference in assigning key positions in the subsidiary

Each of these staffing methods has its own merits and demerits. However, MNEs use the ethnocentric approach more for control reasons than any other purpose. This is on the assumption that home national managers will identify themselves with parent company objectives. A recent study by Banai and Reisel [1993], however, found no support to the widespread belief that expatriate managers are more loyal to the company than host-

country nationals. They found that age predicted organizational commitment more accurately than nationality.

Where nationals other than home country nationals are placed in key positions, they are indoctrinated in order to ensure loyalty to parent company objectives. This is done through the secondment of managers to the head office or other subsidiaries of the organization. This is called control by socialization [Brinkerhoff and Kunz, 1972; Edstrom and Galbraith, 1977]. Baliga and Jaeger [1984] labelled this type of control, as it is practised in Japanese firms, a corporate cultural control.

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because of their significance and more frequent use in controlling subsidiary organizations.

The control of subsidiaries through the control of important resources becomes less effective as subsidiaries become more self-sufficient in terms of strategic resources such as personnel, sources of finance and inputs, identifying markets for their products and technological development. After operating for some time, the subsidiary develops its own management and technical expertise. Similarly, as the subsidiary grows, it is able to seek alternative markets for its outputs and sources of inputs rather than relying on the head office. This becomes important as transfer pricing policies dictate prices for subsidiary products and inputs within the group and decisions on where profit should be made. This creates a control gap between the desired level of control by the head office and the actual level of control [Prahalad and Doz, 1981]. Figure 1 illustrates the existence of the control gap.

Growth and profitability of the subsidiary also enables it to raise financing as well as establish its own research and development programmes or adopt technology from alternative sources. Usually, subsidiaries that consider that they can get better deals from external suppliers and customers will fight for autonomy in this respect. Therefore, this method of control is more effectively used with newly-established subsidiaries.

Figure 1 The Shift in Control Mechanism

S,S1 - dependence on resource control
O,O1 - dependence on other methods

Source Prahalad and Doz [1981]

2.1.4 choice of control method

It should be clearly stated that the various control methods are not mutually exclusive. In managing their worldwide operations, MNEs will choose the type of control that best suits their operation. The method applied may also differ from one subsidiary to another within the same MNE depending on subsidiary qualities. Organizations will also differ in the degree to which they use each method of control.

The next section looks in detail at another possible control mechanism. This method, the use of the local board of directors, already exists and is effectively used in general, but has received little attention in the study of control of subsidiary organizations.

2.2 Board of Directors

The representation of shareholders, functions and composition of the boards and their effectiveness are controversial issues in the management and control of organizations in general [Kiggundu, 1989]. The following section covers these three topics in detail and their implications for the level of authority that the boards of directors have in controlling subsidiary companies.

2.2.1 definition

By definition, the board of directors is the top level policy-making body in the modern corporation [Vance, 1964]. Other types of organizations such as family businesses, non-profit making organizations and others also have some form of board but their roles, structures and effectiveness will differ to some extent from business organizations that are set up by a combination of individuals and institutional shareholders. In the modern corporation, policy decisions and any operational decisions that have a significant impact on the success or failure of the organization are either made by the BOD or ratified by it before they are implemented [Waldo, 1985]. This implies that the BOD has a great responsibility in directing the performance of the organization at both the strategic and operational levels. The board is, therefore, expected to have the authority to carry out these duties, be up-to-date with what is happening in the organization and be readily available to make critical decisions when required.

The board has legal responsibilities. This is particularly important in countries where directors can face actual legal liabilities for negligence in the management of business. For example in the United States of America and in Ontario, Canada, directors have to be active and knowledgeable about what is going on within their organizations in order to protect their interests [Mills, 1985; Herzel, Shepro and Katz, 1987].

2.2.2 board classification

It is important to look at the classification and composition of BODs, because the composition determines the power that they exert in making policy decisions for the company. There is general agreement among various authors regarding the basic functions which BODs should fulfil. There are, however, differences of opinion about the ideal board structure and composition.

Some writers classify board members as either insiders or outsiders [Koontz, 1967; Waldo, 1985]; functional or honorific [Vance, 1964]. Mills [1985] described these classifications as executive and non-executive board members respectively. According to Vance [1964] some non-executive members can also be insiders. Inside members include: (1) board members that are full time serving officers of the organization, (2) retired former officers but on the board, and (3) board members with a significant investment in the organization. Although inside members have also been referred to as functional members, inside members will be functional only if they are serving officers. Outsiders are those members that are not serving members and have no significant personal holding in the organization even though some of them may be associated with banks, insurance companies, supplier and customer organizations that are related to the company. Public figures representing special interest groups fall in this category of directors. Vance [1964]

suggested that outside directors who are in close contact with insiders through close business and social relations should be treated as insiders. But this may be a grey area as relationships will tend to develop amongst board members, shareholders and serving officers.

Koontz [1967] further classified boards as (1) dummy boards - typical of new organizations, (2) family boards, (3) owner controlled boards, (4) inside controlled boards with outside members, (5) outside controlled-outside led boards, (6) Inside boards and (7) outside boards. This classification is based on the leadership, composition and the control exerted by each category of the board members.

For the purposes of this study the insiders-outsiders classification will be used for the following reasons. First, this classification is the most commonly used in both practice and theory [Vance, 1964; Koontz, 1967; Mills, 1985; Waldo, 1985]. Secondly, the two categories are more distinct and therefore simpler to analyze than splitting them further into seven categories. Finally, the levels of influence and effectiveness of BODs have been attributed more to the differences in these two categories than other factors [Salmon, 1993] and this is central to the current study.

2.2.3 board composition

The composition of BODs differs from one organization to another in terms of the proportion of insiders and outsiders, the backgrounds of the board members and the interests they represent on the board. Waldo [1985:4] noticed that

"boards of companies such as Texas Instruments, General Electric and RCA are composed of experienced business people [outsiders], members of the company management [insiders] and members of top management in other companies [outsiders] whose knowledge and experience should have added to the overall company competence on the board."

Board members may include politicians, academics, church leaders, business executives, relatives of shareholders, and others who may not necessarily have any business experience or knowledge but will represent special interest groups. These give diversity to the composition of the board and also allows for diverse expertise to handle issues that are not related directly to business such as political and social issues. There is no consensus as to which class of members is more influential than the other. This will depend on a number of factors as we shall see later.

Members of the board may be selected to directly represent the interests of the owners of the company who are the shareholders. Members of the board of a subsidiary company will normally represent the interests of the parent company, if it is a wholly owned subsidiary; or represent both the parent company and any local interest if it is a jointly-

owned company. But other types of board members also indirectly represent interests of shareholders through the representation of the interests of stake-holders such as employees and the public whose actions could affect the shareholders' interests.

There is again disagreement as to what the best combination of board members should be. Trends show that there is an increase in the percentage of outside directors [Koontz, 1967; Waldo, 1985; Salmon, 1993]. Various authors have pointed out the merits and demerits of having boards dominated by one class of directors. Amongst the cited advantages of having inside directors are: (1) familiarity with the business, (2) availability to make urgent decisions, and (3) motivation [Mills, 1985; Baysinger and Hoskisson, 1990]. Some of the disadvantages of inside directors are: (1) prejudices in board decisions, (2) lack of independence from the CEO, (3) lack of appreciation of outside forces (4) narrow experience and (5) monotony on the board. The advantages of having inside board members are implicitly the disadvantages of having outside members and vice versa. It should be pointed out, however, that outside members are usually recommended by inside members. Therefore the element of the independence of outside members may not exist and will depend on the personal qualities of the outsider. Furthermore, inside directors may have just as broad experience as outside directors depending on their background and their representation on other boards.

2.2.4 size of boards

Board sizes differ depending on the size of the organization. The larger the organization the larger the board and vice versa. The number of board members generally ranges from three to over twenty [Koontz, 1967]. If boards are very large it is difficult to adequately deliberate issues and reach consensual decisions. Therefore, large boards are normally broken down into committees which are responsible for specific functions.

The most common board committees are the finance, audit, remuneration and the executive committees. The executive committee makes decisions on behalf of the whole board. If there is an urgent decision to be made and the board cannot meet, this committee will make decisions and advise the rest of the board at their next meeting. The other three committees deliberate issues and make recommendations to the rest of the board for their endorsement if accepted. The size of the board and the existence of board committees is likely to give an indication of how much influence the board has in decision making.

2.2.5 board control and effectiveness

Vance [1964] considered boards with over 60 percent inside members as inside controlled, those with less than 46 percent inside members as outside controlled and those in between as having intermediate (balanced) control. This may not reflect the reality as the mere

numbers do not take into account the actual influence of individual members which will depend on the qualification, experience, background and the relationship of the board members to the shareholders as depicted by the classification of Koontz [1967].

The effectiveness of BODs has received many criticisms from different writers [Vance, 1964; Koontz, 1967; Mills, 1985]. Dummy boards are not effective because they are set up at the establishment of a business in order to fulfil the legal requirements. Similarly, most family boards do not make important decisions as they meet simply to satisfy the legal requirement to meet at least once a year. By the same token, boards of subsidiaries that are set up to meet legal requirements will not have any powers and will be inactive. For boards to be effective, the members should understand management process¹ and the principles underlying this process [Koontz, 1967]. This implies that family board members, politicians and special interest group representatives on the board will not contribute effectively unless they also have managerial qualities. Apart from this, the leadership and the coordination of the board's activities are vital to its effectiveness.

Kiggundu [1989] argues that insiders will have more influence on the board because of their knowledge of the organization and industry operation. From a different point of

¹ This process includes the following managerial roles: planning, organizing, staffing, directing, controlling, coordinating, motivating integrating and communicating.

view, Salmon [1993] attributed the improved effectiveness of BODs in the U.S. in the seventies, compared to the sixties, to the shift from insider to outsider dominance on boards. Either position may be correct depending on the circumstances.

Examples of situations in which inside board members will be more effective than outside board members include organizations which operate in very unstable and competitive environments where decisions have to be made quickly, and in highly specialized technical industries where technical expertise is essential to make decisions. Outside board members will be more effective in organizations in stable environments, in organizations that rely heavily on the public for their existence such as charitable organizations, or organizations which have a great deal of interaction with other organizations for sourcing inputs and consumption of their outputs.

In this study, boards will be considered influential and effective if they make policy decisions and are free to accept or reject recommendations presented to them by management. If they act as rubber-stamps for decisions made by the management or head office representatives, then they will be considered ineffective.

Success factors such as profitability or growth could be used as a measure of the effectiveness of the board but these have a more direct reflection on the operational

management team than the board, in general. The study is interested in establishing the level of contribution that the board makes towards strategic decision making. Therefore, the level of contribution will be used as a measure of effectiveness.

2.2.6 roles of the board of directors

The board members' primary legal responsibility is to represent the interests of the owners of the business, the shareholders. Their secondary responsibility is to look after the interests of other stake-holders such as the creditors, employees, politicians, or environmentalists. That is, all groups in society who are affected by the activities of the organization. It is for this reason that boards are composed of representatives of shareholders as well as various interest groups.

The responsibility of the board is primarily to formulate or approve major policy decisions, plans and goals. This is a strategic management responsibility [Kiggundu, 1989]. Mace [1948:47] proposed that it was the board's responsibility "... to direct the management through policy making and to check upon results".

Therefore, board members are also responsible for monitoring the activities geared towards the achievement of policy decisions and evaluating the performance of the implementors, management and other employees in the organization.

From Mace's [1948] work, however, it can be inferred that executive board members, who are involved in the day-to-day operational details of the organization, will also take part in evaluating their own performance. Inside board members cannot divorce themselves from the responsibility of implementing the policies. This view indicates a conflict of interest which arises from the dual roles of executive board members [Baysinger and Hoskisson, 1990].

2.2.7 subsidiary board of directors

Due to the geographical, cultural, economic, political and social distance that normally exists between head office and subsidiaries of multinational organizations, day to day control of the activities of the local management from head office is difficult, if not impossible, without seriously affecting the performance of the subsidiary. So far, we have considered control procedures that are normally used by multinationals such as control of resources, staffing policies and strict bureaucratic reporting structures. These rely heavily on the resource dependency of the subsidiary on the parent company and the capability and dedication of the local managers to make good decisions or follow instructions to the letter without the means to check activities closely from head office.

As the control of the subsidiaries through the control of important resources wanes with the growth and experience of the subsidiaries [Globerman, 1986; Ball and McCulloch, 1988], multinationals begin to look for alternative means of control.

Primarily, the subsidiary board of directors satisfies the legal requirement of the existence of a board for each registered company. According to Leksell and Lindgren [1982], this local board, like any other BOD, provides an external link between the subsidiary and the host environment. In addition to this responsibility, subsidiary board of directors has also an internal role to play as a link between the subsidiary and the headquarters of the multinational. As a link to the headquarters, the local board of directors is in charge of the task of coordinating and integrating the subsidiary and the MNE as a whole.

From the available literature, it appears little attention has been given to the roles and functions of boards of subsidiaries of multinational enterprises, whether wholly owned or partly owned [Leksell and Lindgren, 1982]. There is also a lack of knowledge about their functioning. Mills [1985] observed that holding boards, that is, boards of the head office, have the belief that they would lose control if subsidiary boards actually formulated decisions rather than just accepted instructions. This makes most subsidiary boards dormant and inactive. The advantage of this set-up is that control of the activities of the

subsidiary is in the hands of the headquarters. This suits centralized organizations which need to coordinate critical activities such as marketing or manufacturing strategies.

The major disadvantage of centralized policy decisions in an MNE is that it is an impediment to an effective management team of the subsidiary company and its development as it does not face real challenges in the boardroom. One study found that subsidiaries and divisions of groups of companies were less adaptive to environmental changes, less involved in strategy formulation, and had less effective board procedures compared with boards of independent companies of the same size [Leksell and Lindgren, 1982].

2.2.8 subsidiary board composition

The composition of subsidiary boards will depend on a number of factors. The major one is the ownership structure². If a subsidiary is wholly owned it is expected that there will be executive board members, head/regional office board members and local outside board members to complement the insiders. Jointly-owned subsidiaries will have representatives of local shareholders on the board as well.

²According to Goehle [1980] and Stopford and Wells [1972], wholly-owned subsidiaries are those in which the parent company owns 95% or more of the subsidiary stock. Leksell and Lindgren [1982] classified wholly-owned subsidiaries as those whose parent company held at least 90% of the subsidiary stock.

The board composition to some extent is determined by host government laws that give such guidance. For example in Germany, boards of large multinationals are required, by law, to consist of seven non-management employees, three union nominees and ten representatives of shareholders [Humes, 1993]. So the composition of the boards will have to meet the above minimum requirements. Similar legislation addresses the structure and composition of boards in Canada and Scandinavian countries [Kriger and Rich, 1987]. This means that, regardless of company policy on local board composition, local law also plays a major part.

This study was conducted in Malawi (see APPENDIX B). There are specific sections in the Laws of Malawi [1978] that deal with foreign companies. These stipulate that a foreign company should have a minimum of three and a maximum of nine locally resident directors. In addition, the chairman of the board should also be resident in Malawi. The resident directors can be of any nationality. By law, names of local directors are required to appear on all letterheads. There is no limitation to the number of non-resident directors that a company may have on the board.

Chapter 3: RESEARCH QUESTIONS

Most literature on the control of subsidiaries discusses control through the structure and the reporting requirements imposed on the local management by the head office [Baliga and Jaeger, 1984], staffing of the subsidiary and management indoctrination [Edstrom and Galbraith, 1977], and the control of resources [Prahalad and Doz, 1981]. Baysinger and Hoskisson [1990] also observed that the traditional theory of control in organizations has focused on problems associated with managing relationships between workers and supervisors. Some research has been reported regarding the role that the local BODs can play in controlling the subsidiary from the head office point of view. From the formal definition and functions of the BOD, it is expected to have an influence on the strategic and operational control of the subsidiary organization as the management of the subsidiary is accountable to shareholders through the board. Therefore, the board can exert a lot of influence on the activities of the local management through this reporting structure.

Firstly, this study aimed at evaluating the factors that influence the composition of the subsidiary board of directors. Secondly, it also examined the factors that determine the influence and effectiveness of the board. It is expected that the identification of these two sets of factors should enable head office management to formulate policies that will use the subsidiary BODs more effectively for control purposes than may currently be the case.

Head office management of the MNE subsidiaries can also use this to negotiate with a host government to relax the laws if they feel they are too restrictive for the operation of the subsidiaries and thereby making it less attractive to continue operating in the host country.

As mentioned earlier, laws of the host governments determine the size and composition of the BOD. If such laws make it difficult for board members to effectively contribute towards the decision making process, then these policies do not serve the purpose for which they were instituted. Hence they may need to be reviewed. Host countries formulate such laws to control the operation of the MNE subsidiary and ensure that the interests of the public are protected. Otherwise board members will be expected to be responsible for actions over which they do not have effective authority and it may be difficult to bring them to task for organizational malpractice. Therefore, this study has policy implications for policy makers in the host countries.

Chapter 4: RESEARCH HYPOTHESES

This study was guided by the theoretical model shown in Figure 2. The propositions in the study covered the following areas:

- 1) the effects of company ownership and the staffing policy of multinationals on board composition
- 2) the effect of the company ownership structure on the level of influence of the board and its size
- 3) the correlation between board diversity and board size
- 4) the relationship between board diversity and its effectiveness.

4.1 Company Ownership, Staffing Policy and Board Composition

As board members are expected to represent the interests of shareholders, they are selected on the basis of the ownership of the subsidiary as well as their expected contribution to the success of the organization as a whole. This is applicable to both wholly-owned and partly-owned foreign subsidiaries. Secondly, their appreciation and dedication to headquarters objectives will be a consideration just as it is a factor for selecting top management.

Figure 2 The Research Model

Similarly, it is expected that ethnocentric local companies consider local managers and board members to be more loyal to the local company than expatriates. The above propositions were tested through the following three hypotheses:

Hypothesis 1: Subsidiary boards of ethnocentric MNEs will have more expatriate directors than boards of other MNEs.

Hypothesis 2: Boards of ethnocentric local companies will have more local directors than boards of other local companies.

Hypothesis 3: BODs of MNE subsidiaries will include at least one regional or head office corporate board member.

In this study, expatriate directors were defined as those who hold foreign passports or are naturalized Malawians. Naturalised Malawians are included in this category because most have dual citizenship and do not enjoy the same status as indigenous Malawians. For example, they are allowed to do business in major cities only.

4.2 Company Ownership, Board Size and Level of Influence

It was unlikely that local board members of a wholly-owned subsidiary would have much influence on the operation of the organization because they do not have any stake in it. As Berenbeim [1981] observed regarding the delegation of authority, local managers of the subsidiaries that he studied referred key decisions to the head office and not the local board. Thus the fourth hypothesis was:

Hypothesis 4: Local boards of wholly owned subsidiaries have less influence on the subsidiary company's policies than those with local ownership.

Operational control is very important in the running of subsidiaries because of the physical distance that exists between them and their the parent companies. Therefore, the management of the subsidiary is expected to be of a high calibre to be entrusted with the responsibility of running it with less direct supervision. Consequently, MNEs are inclined to have more executive board members as they are directly answerable to the parent company by virtue of their employment. The next hypothesis was therefore:

Hypothesis 5: MNE subsidiary BODs will have more executive directors than BODs of local companies.

Dummy boards are usually created in order to meet the minimum statutory requirements. It is therefore expected that such boards that do not have much influence in the decision making process of an organization will likely have as close as possible to the minimum number of board members required by law. In Malawi the minimum number is three board members [Malawi Government, 1978]. As most MNEs have a tendency to closely control their subsidiaries, they will have smaller boards than local companies. Therefore, the sixth hypothesis was:

Hypothesis 6: The subsidiary boards of MNEs will be smaller than those of local companies.

4.3 Board Size, Diversity and Effectiveness

Most authors agree that diversified board members bring more experience and knowledge to the board and this will be striven for in selecting board members [Koontz, 1967; Waldo, 1985; Salmon, 1993]. This diversity can only be achieved if the board is large. Therefore, it can be inferred from the above statements that:

Hypothesis 7: The larger the board is, the more diversified it will be.

Hypothesis 8: Diversified boards will be more effective than those that are not diversified.

These eight hypotheses were tested in this research study. The effect of government policy on the composition and size of the board was not specifically tested in this study because this was a one-country study and the law affected all the companies in the sample in the same way. These relationships would only be useful in making comparative studies among several countries.

The relationships between company ownership and staffing policy, the staffing policy and the size of the board were not evaluated in this study as a matter of choice. These are possible areas for future studies.

Chapter 5: RESEARCH METHODOLOGY

Data for this study were collected from a sample of MNE subsidiaries and local companies operating in Malawi. The purpose of this chapter is to describe the research methodology and the techniques that were used to collect the data.

5.1 Target Population

The target population for this study was the medium to large MNE subsidiaries and locally owned firms operating in Malawi. The population was divided in this way to provide a basis for comparison of observations between the practices of local and foreign companies.

Medium to large business enterprises were considered as those employing not fewer than 50 permanent employees or those whose annual turnover was not less than \$1 million (US) in the previous financial year. Smaller companies were omitted because they were likely to be family businesses with family or dummy boards of directors.

State-owned enterprises were not included in the study because their boards are mostly composed of ex-officio members chosen from the government and other state-owned enterprises and for political affiliations. Members are not selected on the basis of their

individual potential contribution to the organization but rather their position. However, subsidiaries of state-owned enterprises were included in the study as these are normally operated as private business enterprises.

The study was done in Malawi for a number of reasons. First of all, similar studies that the author has come across [Leksell and Lindgren, 1982; Egelhoff, 1984; Baysinger and Heskisson, 1990; Kriger, 1991;] were done mostly in developed countries of Europe and America and the developing countries of Asia and Latin America. Malawi provided an opportunity to obtain similar research information from an African developing country. Secondly, the researcher has substantial knowledge about Malawi and this provided him with inside knowledge concerning the environment in which the companies are working. Finally, the low cost of doing the study in the researcher's home country was also a consideration.

5.2 Sample Selection

Five possible sources to obtain the list of companies operating in Malawi were considered. These were:

5.2.1 the malawi telex and telephone directory

This is one of the most comprehensive list of businesses operating in Malawi with telephone services as they are all entered in the directory. However, the large number and variety of entries would have made the task of narrowing down the population tedious for the only information to be obtained would have been the name, telephone numbers and contact addresses.

5.2.2 the registrar of companies

The registrar of companies is expected to be the best source of information of companies because every company is registered with them. This is also supposed to contain lists of directors, ownership of the companies and the latest audited accounts for each company. Because many companies do not fulfil this requirement, their information is not up to date. Secondly, as they are not computerized, it is also difficult to search through the data that they hold. There is also a fee charged for each record accessed. Therefore, one needs to have specific companies to access for this source to provide the necessary information.

5.2.3 auditing firms

As all companies are required by law to be audited, auditing firms have comprehensive information about all companies. They could have provided the researcher with all the

demographic data that were required for this study. However, all auditing firms were not willing to provide a complete list of the companies they audited as such information is considered confidential. They could only give general information on specific companies.

5.2.4 the department of income tax

By law, all registered companies are required to file income tax returns together with their audited accounts with the Income Tax Department. This Department is well organized as most of the data is kept on a computer database and is up to date. However, they do not allow individuals to access this data from their office as it is deemed confidential.

5.2.5 the malawi chamber of commerce directory

This directory is a public document and lists companies that are registered with it. The directory provides the following information:

- (a) Company name, address, telephone, telefax and telex numbers
- (b) The name of the Chief Executive
- (c) Products that the company deals in

The entries are categorised according to the following five major industries: manufacturing, services, transportation, retail and exporters/importers. Within the

industries, the companies are also listed by product type. Although not all companies are required to register with the Chamber of Commerce, most medium and large companies are registered with the Chamber of Commerce. This was considered the best starting point for identifying the possible study population because the information is well organized, almost complete and readily available.

The sample for this study was selected from the 1990 directory of the Malawi Chamber of Commerce and Industry which is the latest edition. The directory has 432 entries. After sorting the list in alphabetical order, some entries were dropped as some firms appeared under more than one industry. The next step involved the establishment of the turnover and number of employees in each firm in order to eliminate firms that did not meet the minimum requirements of the study. With the help of the major auditing firms in Malawi, Deloitte and Touche, KPMG Peat Marwick, and Coopers and Lybrand, the list was reduced further. The auditing firms confirmed those firms that were in the ranges that were required in terms of turnover and the number of employees. They also indicated which firms were local or foreign owned.

Those firms that are audited by Price Waterhouse were left out because this auditing firm declined to give any information regarding its clients.

As mentioned earlier, statutory corporations were also dropped. Finally, the study population comprised forty nine foreign companies and sixty seven local companies from which the two samples were drawn. Table 1 lists the number of companies that were dropped from the original list and the reason for this.

Table 1: Number of Firms Dropped and Reasons

Reasons for Dropping Firms	Number Dropped
Duplicate Entries	40
No Longer in Operation	2
Statutory Corporations	10
Size too Small or data not Available	264
Totals	316

Table 2: Population and Sample Sizes

	Population	Sample
Local Companies	67	25
Foreign Companies	49	25
Totals	116	50

Using a systematic random sampling method (Gay and Diehl, 1992), twenty five companies were chosen from each of the two populations. Tables 2 and 3 give the profiles of the populations and the firms that were included in the in the two samples.

Table 3: Profiles of Companies in the Two Samples

Industry	Local Companies	Foreign Companies
Manufacturing	11	9
Retail	4	2
Services	6	10
Transport	2	1
Import/Export	2	3
Totals	25	25

5.3 Sample Characteristics

Companies were considered foreign-owned if over fifty percent of their shares were foreign owned or if they were less than fifty percent foreign owned but the management contract was with the external shareholders. That is to say, if minority shareholders were foreign, but the agreement was such that the management responsibility of the subsidiary was vested in the foreign shareholders, this was considered a foreign owned company. This arrangement normally happens where it is believed that local managerial or technical

expertise is not available to ensure the viability of the company. Foreign shareholders insist on control of the management to safeguard their interests as a precondition for their investment. All others were considered local companies. This definition of foreign owned companies was more inclusive than those given by Stopford and Wells [1972] and Leksell and Lindgren [1982]. Most foreign subsidiaries have local shareholding as a consequence of government policy for local participation. Therefore, the definition of foreign owned companies used enabled the study to draw from a larger population of foreign companies operating in Malawi. This made the research findings applicable to a wider population as only forty nine companies fell into this category. From those interviewed, there were only seven companies that had over ninety percent of their shares foreign owned.

5.4 Sample Stratification

In order to ensure that the data are representative, it would have been best to divide the population into sampling strata. The number of strata would have depended on the sizes of major industries as conveniently categorized by the Malawi Chamber of Commerce, namely, services, transport, manufacturing, retail and import and export. This was not done because only the manufacturing and the service industries were large enough to give meaningful results in the analyses (see Table 3).

5.5 Respondent Unit

The respondents were the most senior managers of the organizations whose designations were The General Manager, or The Chief Executive or The Managing Director. Letters of introduction were sent to the title holders rather than personally to the individuals. This approach was adopted because the directory from which the companies were chosen was four years old and unlikely to be up to date. The names of the of the respondents were verified on setting the appointments. In cases where the CEO designated a member of the organization to take part in the study on his behalf, the researcher had to ensure that the respondent attended board meetings and was familiar with the board members to ensure complete and correct responses.

5.6 Data Collection

The data was collected through structured personal interviews with the chief executives, or their representatives, of the selected companies. One interview schedule was for local companies [Appendix F] and the other was for foreign companies [Appendix E]. The interviews lasted between forty-five minutes and one hour. About half of the respondents agreed to be tape-recorded but the rest declined. The reason given for the refusal was that they felt most comfortable talking without being recorded. Tape-recording was done to ensure that all relevant comments, that were made but not necessarily requested on the interview schedule, would be recorded for further review.

Although Malawi has two national languages: English and Chichewa, all interviews were done in English, the official language. It should be pointed out that the interview method was selected over other forms of data collection in order to ensure a high response rate. It was clear from the kind of persuasion that was required to schedule the interviews that mailed questionnaires would have produced an unacceptable response rate from such small populations. With a few exceptions, it was clear that most respondents were not familiar with academic research studies as initial reactions to follow up telephone calls were "which company are you doing the study for" or "we do not want to give out company secrets". These responses came up despite the fact that a week before the telephone calls, introductory letters [Appendices C and D] were sent to the selected executives introducing the interviewer, the study and its purpose, and explaining that they would be contacted by telephone to schedule an interview date. Three company executives had to consult the chairpersons of their respective boards for clearance before agreeing to take part in the study. Interviews were, therefore, preferred in order to secure a high response rate.

The second reason for doing interviews was to ensure that responses were as close to the truth as possible. Executives were not very willing to provide information on their directors and company without certainty of its privacy. Face to face interviews helped overcome the reluctance to give information. Unwillingness to provide information is

common where executives are not used to giving information regarding their companies to outsiders as is the case in Malawi.

Most companies in the sample were from the major cities of Blantyre and Lilongwe with only six interviews done outside these cities. Each interview lasted between forty minutes to one hour.

The data collection phase had two components:

- i. Pre-test - The purpose of this was twofold: (1) to test the instrument and the data collection procedures and (2) to familiarize the interviewer with the interviewing process. This was done on two organizations which were picked out of convenience from each population. Only the wording of some questions and the layout of the interview schedules were changed as a result of the pretest.

In terms of the procedures, it was found appropriate to give the interviewee some minutes to go over the questions at the beginning of the interview as a preparation. This made them less suspicious in answering the questions. Secondly, the interviewees had a copy of the schedule in front of them to make it easier for them to refer to questions that were complicated and had a number of options to choose from.

The responses from the pretest were of sufficient quality to be included in the final analysis. However, only one response was included because this firm also happened to have been chosen for the sample.

ii. Actual data collection over the rest of the sample. This was done once the pretest results had been evaluated and the instrument and procedures verified as producing acceptable responses. The data collection was done between January 31st and April 13th 1995.

In view of the problems the researcher had in fixing interviews with the company executives and time constraints, no board members, except the managing directors, were interviewed as proposed in the research design. Most CEOs expressed doubt as to whether their board members would be willing to give information of the companies.

Table 4 summarizes the total number of companies that took part in the study, those that were not included and the reasons for exclusion. There was a much better response from local companies than from MNE subsidiaries. For example, twenty one local companies were interviewed compared to fifteen foreign companies. Initially, lack of time was given as the excuse for their unwillingness to take part. Therefore, the researcher dropped off interview schedules to enable the CEOs to fill them out at their own convenience.

One week later, telephone follow-ups were made. For those who did not complete the forms, telefax reminders were sent after another two weeks.

It is clear that it was more difficult to get interviews fixed with the foreign companies' executives. Some foreign companies considered the information sought to be confidential. All the CEOs of the local companies responded to the schedules that were dropped off whilst only five out of the ten MNE subsidiary CEOs gave some response. From this, it may be concluded that local companies were more willing to take part in the academic research than the foreign subsidiaries.

Table 4: Reasons For Non-Inclusion in the Study

Reason	Local Companies	Foreign Companies
Late returns	3	0
Had no time	1	2
Did not want to participate	0	3
No definite response	0	5
Did not meet requirements	1	1
Included in the analysis	20	14
Totals	25	25

Out of those that were interviewed, one company was dropped from each sample because it was discovered that one was a family business. The other was a local company with fourteen percent foreign ownership and the minor shareholder had the management contract. Although this should have been categorized as a foreign company according to the research design, it was dropped because it was considered an outlier. Its characteristics did not reflect either of the two samples and it was the only company in this category³.

5.7 Data Analysis Techniques

Both qualitative and quantitative methods have been used in analyzing the data. As the sample sizes in each category are not large, and most data is ordinal, both parametric and non-parametric statistics have been used in the analyses. The analyses of the data has been done using the SPSSPC+ statistical package. In most cases, simple averages, correlations and frequency distributions have been produced. The t-test was used to compare differences in means. The results were verified using the Mann-Whitney non-parametric test [Siegel and Castellan, 1988] and the outcomes were not different.

³This company had a large board, three executive expatriate directors and the board was very influential. It combined typical qualities of both LOCs and MNEs.

Most data required were either numeric or on a one to seven Likert scale. Responses to open-ended questions have been coded to enable the production of frequency distributions in the analyses.

5.8 Measurement

Different sections and items in the questionnaire were designed in order to measure specific variables of the hypothesis and theoretical model. Table 5 is a summary of the variables and items that addressed them in the interview schedule for foreign subsidiaries (note that the question numbers below correspond to the question numbers in the attached interview schedule in Appendix E).

Table 5: Variables and Corresponding Items

	Variables	Question Numbers
1.	Company ownership	5-8
2.	Staffing policy	32-37
3.	Board composition	9-21, 53, 55
4.	Government policy	21
5.	Size of the board	9 and 16
6.	Board effectiveness and influence	25-31, 38-46, 54
7.	Board diversity	16-20

Some of the questions were not directly linked to the research theoretical model but provided demographic data and more information regarding the respondents, the organizational environment or enabled the respondents to expand on their responses.

Chapter 6: RESULTS AND DISCUSSIONS

This chapter presents and discusses the results after the analyses of the data. Apart from giving information in relation to the hypotheses that were formulated at the beginning of the study, a number of other observations have also been made. A great deal of data were collected that were not necessarily relevant to test the hypotheses but the observations are nevertheless interesting to the subject as a whole. These have been discussed in the Appendix A.

6.1 Staffing Policy and Board Composition

The following section looks at the staffing policy of both multinational and local companies and evaluates how this affects the composition of their boards of directors.

6.1.1 foreign subsidiaries

As discussed in Chapter 2, multinationals control their subsidiaries in a number of ways. One of them is through the placing of home country nationals in key positions in the subsidiary organization. The assumption for this practice is that home country nationals are more loyal to the company's head office objectives than nationals of the host country.

By the same token, it was hypothesized that expatriate board members normally identify themselves with the interests of the multinational company rather than the host country as a result of their status. Amongst the companies sampled, sixty four percent of them had a preference to fill the chief executive's position with home country managers as a company policy (Table 6).

Table 6: Company Staffing Policies

Policy	Local Companies	Foreign Companies	All Companies
Ethnocentric ⁴	10 (50.0%)	9 (64.3%)	19 (55.9%)
No Policy	10 (50.0%)	5 (35.7%)	15 (44.1%)
	20 (100.0%)	14 (100%)	34 (100%)

One manager of a British subsidiary expressly said that, as a British company, it had to be headed by a British national to protect its interests. Another manager of an American subsidiary said that the chief executive could come from any other country apart from the host country and this was applicable to all subsidiaries worldwide. However, all heads of departments had to be host country nationals for cost reasons. The rationale for this policy

⁴ These are companies that prefer to fill top positions in their organizations with home country nationals.

was to balance country loyalty of host national heads of departments in the subsidiaries with company loyalty of the expatriate chief executive.

Table 7: Company Staffing Policies and Board Composition

Number of Members	Local Companies		Foreign Companies	
	Number of Expatriate Board Members			
	<u>Ethnocentric</u>	<u>No Policy</u>	<u>Ethnocentric</u>	<u>No Policy</u>
0	3	3	0	0
1	0	1	0	0
2	2	2	1	1
3	2	1	1	2
4	3	0	5	2
5	0	0	2	0
6	0	1	0	0
7	0	1	0	0
8	0	1	0	0
	10	10	9	5
Mean	2.2	2.9	3.9	3.2
t-values	.6*		1.73**	

* Not significant at .10 level

** Significant at .10 level

All the foreign subsidiaries had an average of 3.7 expatriates on each board. Those with an ethnocentric policy had an average of 3.9 expatriates (Table 7). Those which said that nationality was not an issue in recruiting the chief executive had an average of 3.2

expatriates on their boards. The minimum number of expatriate board members was two and the maximum was seven for all MNE subsidiaries. There was a clear preference for expatriate board members on the subsidiary boards. However, the company staffing policy did not significantly affect the number of expatriates on the boards of local companies.

6.1.2 local companies

Using the same logic as formulated above regarding ethnocentric foreign subsidiary companies and how this relates to the composition of boards of directors, it was also expected that ethnocentric local companies would reflect practices similar to the ethnocentric MNE subsidiaries. Fifty percent of the respondents for local companies stated that they preferred local managers to fill the CEO's position to expatriate managers (Tables 6 and 7). This was done both as a company policy and also to be in line with government policy for job localization. The government did not, however, take any steps to enforce this policy. So ethnocentricity was exercised more as a company practice than anything else.

Thirty five percent of the local companies did not have any expatriates on their boards at all. This is a remarkable contrast to the foreign subsidiaries which all had at least two expatriates on the board (Table 8). Sixty four percent of the foreign companies had four or more expatriate board members. The arithmetic mean number of expatriate board

members on the boards of local companies was 2.6. This mean looks high because of the observations made in Table 9 below. There was one company that had all the eight board members who were expatriates. Although this was a locally registered company, the owners were of Italian origin and had lived in the country for a long time. They however, maintained their original citizenship.⁵

Table 8: Frequency of Expatriates Board Members

Value	Local Companies	Foreign Companies
0	7 (35%)	0
1	1 (5%)	0
2	4 (20%)	2 (14.3%)
3	1 (5%)	3 (21.4%)
4	2 (10%)	7 (50.0%)
5	2 (10%)	2 (14.3%)
6=<	3 (15%)	0
Mean	2.6	3.6
Mode	0	4.0
SD	2.6	.9

It was observed that the staffing policy of local companies did not have a significant bearing on the percentage of local directors that were on their boards. Boards of

⁵ Up until two years ago, no foreigners could get citizenship in Malawi unless one of the parents was an indigenous Malawian. There are, therefore, many foreigners who have lived in the country for generations but cannot obtain citizenship.

ethnocentric local companies comprised about fifty nine percent and the rest had sixty two percent local board members (Table 9). This brings us to the conclusion that nationality was not a major factor in the recruitment of board members for local companies.

Table 9: Staffing Policy and Percentage of Local Directors
(Local Companies)

Policy	N	Mean(%)	SD
No Policy	10	.59	.43
Ethnocentric	10	.62	.34

t-value = -.21

Not significant at .10 level

However, it was observed that seven of the local companies had unusually large percentages of expatriates on the board than local members for various reasons. The composition ranged from sixty seven to one hundred percent expatriates. Table 10 gives possible reasons for this observation.

Table 10: High Percentage of Expatriate Board Members on the Boards of Local Companies

Number of Companies	Possible Reasons
1	Owners were expatriates resident in the country
2	The parent companies were MNE subsidiaries
3	Companies had large block of shares (=>40%) foreign owned
1	No clear observed reason

The above observations further highlight the effect of company ownership on the composition of board members. Another possible reason could be the unavailability of qualified local managers for recruitment to the boards. As most local companies have many expatriate managers, and board members are chosen from this pool, it should be expected that there would be many expatriate board members.

6.2 Executive Directors

It is a common practice for companies to have executive board members. This is typical of family run businesses. Corporate boards also have executive board members who may or may not own shares in the organization. The most common reasons cited for having

executive board members are their loyalty to shareholders's interest, familiarity with the business and readily available to make urgent decisions when required [Koontz, 1967].

From the above, it was inferred that because of the physical distance that exists between shareholders and the operational location of an MNE subsidiary, MNEs would have more executive directors than LOCs as they have special loyalty to the head office by virtue of their employment.

Table 11: Executive Board Membership

Value	Frequencies	
	LOCs	MNEs
0	8	2
1	5	7
2	6	3
3	1	1
4	0	1
Mear.	1.00	1.43
Mode	0	1
SD	.97	1.09

t-value = -1.20

Significant at .05 Level

Table 11 represents the frequency of the presence of executive directors on the boards of both MNEs and LOCs. The executive directors included in this category are only those that are resident in the country. Head office and regional executive directors have been excluded in this analysis as they would skew the results since all MNEs had at least two on their boards unlike LOCs.

The findings established that whilst over eighty-five percent of all MNE subsidiaries had at least one executive board member, forty percent of the LOCs sampled had no executive board members (Table 11). On average MNE subsidiaries had 1.4 executive directors and LOCs had an average of one executive director on each board.

One company whose home country was the United States of America had a two tier board. There was the legal board, which the Managing Director referred to as the dormant board, and an executive board comprising all heads of departments. This was referred to as the operational board. The dormant board met occasionally only to rubber-stamp decisions made by the lower board. This practice is in line with the custom in Germany, Finland and Holland where they have legal or supervisory boards and management boards (Demb and Neubauer, 1992).

It was also observed that the executive directors were mostly expatriates. This finding further strengthens the conviction that executive and expatriate board members identify themselves with the MNE company objectives than local and non-executive board members.

6.3 Head and Regional Office Board Members

The ownership of companies necessitates that board members are appointed to the board in order to represent the interest of the owners of the company, the shareholders. In view of this, it was expected that subsidiaries of MNEs, whose ownership or part of is external, should have head office or regional office employees, where applicable, on the local board. The purpose of this is to make sure that the interests of the external shareholders are safeguarded.

All foreign companies that were surveyed had either regional or head office employees on the local board (Table 12). In most cases there were two such board members. However, not both attended the board meetings at the same time but alternated. Most companies mentioned cost considerations and other commitments as reasons for not bringing in both non-resident board members for all meetings. In a number of companies the non-resident board members attended only the annual general meetings.

**Table 12: Regional and Headquarters Board Members
(Foreign Companies)**

Number of Members	Frequency	Percentage
1	2	14.3
2	9	64.3
3	1	7.1
5	2	14.3
Totals	14	100.0

Mean = 2.2 Mode = 2

Although the non-resident board members were not directly involved in board resolutions, they actually exerted much influence on many decisions. The managing directors often consulted the non-resident board members on strategic decisions and would implement decisions without necessarily consulting the locally resident members. Such decisions would be reported and rubber-stamped at the next board meeting. It can be seen that in this respect the external board members carried more weight than the locally resident members because of the member's closeness to the shareholders and possibly understanding of the business. This was reflected in both strategic and operational decisions.

6.4 Company Ownership and Board Size

The study aimed at establishing whether there was a significant difference in the size of the boards of directors between LOCs and MNE subsidiaries. Table 10 gives a summary of the results.

Although the boards of locally owned companies (LOCs) were on average (mean= 6.45 members) larger than those of MNEs (mean= 5.79 members), the difference was not significant. It could not be concluded from these data that the boards of LOCs are larger than those of MNE subsidiaries.

Table 13: Company Ownership and Board Size

Company Ownership	Mean Number of Members	Standard Deviation
Local (n=20)	6.45*	1.43
Foreign (n=14)	5.79*	1.63
Foreign (n=4) (With local ownership $\geq 40\%$)	7.00*	2.16

* differences between means not significant at .10 level

From table 13, it was noted, however, that boards of MNE subsidiaries that had a significant local ownership tended to be larger than both one hundred percent local or foreign owned companies. This can be explained in terms of the diversity of the ownership pattern. It would be assumed that the higher the number of shareholders in a company, the larger the board will be as the practice has been to ensure that all major owners have representation on the board.

Local shareholders that have a significant investment in a foreign controlled company would have a large representation on the board to ensure that their views are heard through their number of votes they control on the board. A similar pattern should be expected in locally controlled companies that have a large block of shares that are foreign owned. So joint ventures, regardless of where the majority shareholder resides, are bound to have large boards of directors.

6.5 Company Ownership and Board Influence

It was expected that there would be a difference in the amount of influence that boards would exert on the MNE subsidiaries that were partly-owned and wholly-owned. Wholly-owned subsidiaries were found to be directed more by head office executives than those

that had some local ownership. Table 14 shows some positive correlation between local shareholding of the MNE subsidiary and the level of subsidiary board strategic influence.

Table 14: Correlation Between Strategic Influence and Local Shareholding (Foreign Companies)

	Percentage of Local Shares	Strategic Influence
Strategic Influence	.326 p=.128	1.000
Percentage of Local Shares	1.000	.326 p=.128

1 tail significance
n= 14

Table 15 shows that on a Likert scale of 1 to 7, wholly-owned subsidiaries had an average of 4.14 (n=7) in strategic control. The other subsidiaries had an average of 5.25 (n=7) on the same scale. Local shareholders' views had to be taken into consideration in major decisions. Therefore, decisions in joint ventures were not easily made by the MNE head office as these had to be deliberated and agreed upon with the local shareholders through the local board. However, the difference in the level of influence has no statistical significance.

Table 15: Strategic Influence and Joint Ownership

Percentage of Local Shares		Level of Influence	SD
= 100%	(n=7)	4.14*	2.9
< 100%	(n=7)	5.25*	1.3

* Not significant at .10 level

1 - Not influential 7 - Very Influential

6.6 Rules and Regulations

Forty seven percent of all thirty four companies surveyed indicated that they had rules which specified the powers of the CEO. Among other things, the rules stipulated the CEO's levels of authority and responsibility, decisions s/he could make without seeking permission from the board or head office. Most of these rules were related to financial matters.

Table 16: Importance of Rules

Reasons	Response Frequency *
1. Rules ensure consistency in group operations **	9
2. Rules ensure that managers know their limits	8
3. Rules give guidance to the CEO	5
4. Rules facilitate decision-making	3
5. Rules ensure control of CEOs	2

* In a number of cases, more than one reason was given

** It was claimed that this ensures that managers can be transferred/seconded to any subsidiary within the group and work effectively

Nine out of the twenty LOCs and seven of the fourteen MNE subsidiaries had written rules. All those that responded 'yes' to the question, 'do you have any written rules or regulations specifying the chief executive's levels of authority in making decisions?' expressed commitment to these rules and said that they were extremely useful. The average rating on the one to seven Likert scale was 6.5.

Although generally rules have been considered restrictive, these managers said that the rules gave them freedom to operate within their specified limits. In replying to why they considered these rules important, the responses given are shown in Table 16.

One CEO summarized the above by saying that '... rules give the CEO a sense of comfort' in the day-to-day running of the organization. This dispels the negative connotations that have been associated with written rules and regulations for CEOs in MNE subsidiaries. It is surprising that company rules were least considered a control mechanism by the respondents in the study.

6.7 Size of the Board and its Diversity

The minimum accepted board size in Malawi is three. While collecting the data, the researcher came across only one company that had a board of three members. This was a family business. This company was a large in terms of turnover and all the three shareholders were executive board members. Otherwise, the number of board members for the companies in the sample ranged from four to ten for both LOCs and MNE subsidiaries (Table 17).

Table 17: Board Members Frequency Table

Number of Board Members	Frequency	Percentage
4	3	8.8
5	11	32.4
6	8	23.5
7	5	14.7
8	4	11.8
9	2	5.9
10	1	2.9
	34	100.0

Mean = 6.2, Mode = 5

Board diversity was measured by the divergence of the functional areas of members represented on the board. In order to measure diversity, the respondents were required to indicate the functional area of each board member from the following list:

- * Marketing
- * Finance or Accounting
- * General Management
- * Information Systems
- * Engineering
- * Legal
- * Other

The frequency Table 18 shows the spread of the representation of the above functional areas amongst the boards of the companies that were studied.

The results in Table 19 show that boards of directors that were large had more functional areas represented than those boards that were small. The analysis confirmed that there is a strong positive correlation of .71 between the size of the board and its diversity.

Table 18: Functional Areas Frequency Table
(Local and Foreign Companies)

Functional Area	Number of Board Members	Percentage of Board Members (%)
Marketing	16	7.6
Finance or Accounting	59	28.0
General Management	79	37.4
Engineering	14	6.5
Legal	18	8.5
Information Systems	2	1.0
Other (Banking, Teaching, Political etc.)	23	11.0
Totals	211	100.0

Table 19: Correlation Between Board Size and Diversity
(All companies)

	Board Size	Board Diversity
Board Size	1.00 (34)	.7067 (34) P=.00
Board Diversity	.7067 (34) P=.000	1.00 (34)

1-tailed Significance

Naturally, there is a limited number of functional areas that can be represented on a small board unless the individual board members identify themselves with more than one functional area. There was a number of board members who were effectively in general management, but because of their professional background, could be classified in other areas, such as finance. However, only their current roles were taken into consideration. This was done for simplicity; and secondly, it was assumed that their current roles qualified them for a position on the boards.

It was observed in Table 18, that the distribution of professions on the boards was not even amongst the different functional areas. For example, out of the 211 board members of the companies sampled, thirty-seven percent were in general management, and twenty-

eight percent were accountants. Major fields such as banking, engineering, which are as old as accountancy, were hardly represented. There were also only two members from the information systems functional area.

6.8 The Board Diversity and its Effectiveness

Each board member brings to the boardroom individual knowledge, experiences and expertise. Amongst a number of factors, these are determined by the individuals's educational and professional training and achievements, and previous and current business experiences in the field of practice. The understanding of the organization's business and its environment can also be a factor. In general, it is agreed that the effectiveness of a board of directors depends on the abilities of the members and their approach to their job (Coperland, 1947).

Waldo [1985] observed that outsiders on the board can be effective because they bring a broader point of view on issues. This is applicable if there is variety in their models for interpreting data that are presented to them. Variety in the interpretation of data can only exist if the board members have different experiences or have different professional backgrounds.

The study predicted the existence of a positive relationship between board diversity and its effectiveness. As stated in section 6.7 above, diversity was measured in terms of the variety of functional areas of board members. Effectiveness was evaluated through the perceived amount of influence that the board, as a whole, exerted in making strategic decisions.

Board effectiveness can also be evaluated on the individual level. Table 20 shows the qualities and the ratings that respondents gave as having an influence on the potential of board members to be effective. These were rated on a Likert scale of one to seven. One being 'Not Important' and seven 'Very Important'. The following sections discuss a number of qualities that were evaluated by CEOs on their importance for individual board members to be effective on the board.

6.8.1 business experience

This was ranked highest with an average score of 6.2 and a modal score of 7. Certainly the more experienced in business a board member is, the more authority one commands in board deliberations. Business experience enables one to make informed and well-supported arguments in board decisions. Therefore, there was overall agreement amongst the thirty four respondents on the relevance of this quality on individual board members' effectiveness.

Table 20: Essential Qualities for Board Members' Effectiveness

Quality	Scores								Mean
	Rank	1	2	3	4	5	6	7	
Environmental Experience*	1	0	0	0	0	0	1	3	6.8
Business Experience	2	1	1	0	1	2	9	20	6.2
Relations with Shareholders	3	1	2	1	2	8	9	11	5.5
Professional Qualifications	4	2	2	2	7	3	11	7	5.0
Business Connections	5=**	3	2	4	3	5	8	9	4.9
Insider/Outsider Status	5=**	2	4	1	4	7	9	7	4.9
Educational Qualifications	7	3	8	0	6	6	6	5	4.2
Political Connections	8	15	8	2	2	5	1	1	2.2
N= 34 1 - Very Important 7 - Not Important									

* Number of respondents to this was 4 as the quality was not on the interview schedule

** These two qualities were given equal average ranks.

6.8.2 political connections

There was only one organization that gave the highest rating of seven to this attribute. This company happened to have been established and was controlled by one of the local political parties. Otherwise this attribute received the modal score of 1 and the mean was 2.3. This came as a surprise in view that only a year earlier the ruling party was in control of major businesses and had much influence in the commercial sector.

It was, however, understandable that MNEs, generally, do not wish to align themselves with local political parties for fear of repercussions when political changes take place. Local companies may be more politically aligned than international companies. A few respondents pointed out that had the data been collected two years earlier, political connections would have scored higher.⁶ But they were quick to point out that they were glad that this was no longer the case.

6.8.3 educational qualifications

Most managers believed that the level of education on its own was not a good predictor of a member's level of influence on the board and was given a midpoint score of 4. Whilst education is important to enable individuals to grasp business practice, it was not

⁶See recent political changes in Malawi, Appendix B.

enough in itself. The level of education is used to advance the other qualities that may make board members effective.

6.8.4 professional qualifications

As expected, this received an above average score of 5 with a mode of 6. It may arguably be pointed out that professional qualifications will only be important if the profession is relevant to the business at hand. The researcher observed that the profession that was well represented on the boards is the accounting profession and there was quite a good number of accountants that were in executive positions and were therefore classified under general management. In Malawi, professional accountants dominate the business sphere. Otherwise the other professions were underrepresented. It can be assumed, therefore, that most respondents may have had the accounting profession in their minds when responding to this question.

6.8.5 insider/outsider status

In the literature review, insiders were defined as board members that are employees of the organization, or are shareholders or have very close links with the shareholders. The insider status of the board member was rated as having significance in the level of influence on the board. From the sample studied, there was a high percentage of executive boards members, relations to shareholders and head office personnel. Since preference

was for insiders, then these would be expected to carry more weight on the board than the few outsiders. The average rating for this was 4.9 and the mode was 6.

6.8.6 business connections

Depending on the business type, business connections that board members have can be invaluable to a company on whose board these members sit. For example, in a competitive business environment, board members can be a source of valuable information, influence customer decisions through other board members and provide contacts at the right level. This is quite important in small business communities such as the one that exists in Malawi. Business connections, as a quality, was ranked above average (mean = 4.9, mode = 6.0). It is a reflection of the potential influence that board members can exert on operational decisions of the companies.

6.8.7 relations with shareholders

Relations with shareholders was a measure of how close a board member was to the shareholders. This included both family relationships as well as personal affiliations. It was generally agreed by the respondents that board members who were shareholders, or got along very well with key shareholders, were also very influential on the board. Although this characteristic was ranked second (Mean = 5.5), below the business

experience, in discussion most CEOs remarked that this could probably be the most important attribute.

One CEO expressed that a nephew of a key shareholder had the power of veto and his decisions were normally adopted even if there was a disagreement with the other board members. As the owners or direct representatives of the owners of the business, such affiliated board members' opinions carried more weight than those of the rest. If CEOs needed to make urgent major decisions, they normally consulted these board members.

Similarly, representatives from the regional or head offices of MNE subsidiaries were considered to be closer to shareholders than the rest. Therefore, they could make strategic decisions on behalf of the board and initiate implementation without prior endorsement of the local board. As a result, most decisions were referred to the head office for its sanction.

6.8.8 local environmental experience and understanding

In order to ensure that all important qualities were taken into consideration, respondents were also asked to name any attributes that they believed to be significant. Local experience and understanding of the local environment were consistently mentioned and was given the highest average rating, 6.8. Board members, amongst other duties, provide

management with an independent external view of the business environment. This is especially important in international business as the subsidiaries face varied environments. The local board members, who are on the ground, can provide a good assessment of the local conditions to both the local and the headquarters managers. A stable board also provides continuity in an organization when management changes and is typical of multinational subsidiaries.

Despite the support for individual effectiveness being determined by the above qualities, the findings in the study did not clearly indicate the existence of a positive relationship between board diversity and effectiveness. Boards that comprised members from a wide variety of functional areas were judged by the CEOs as not significantly more effective in determining the strategic plans of the organization. The same applied to the day to-day influence in running the organizations. The results in Tables 21, 22 and 23 show weak correlations of 0.18, .20 and .25 between boards' diversity, and their strategic and operational influence respectively.

Table 21: Correlation Between Strategic Influence and Diversity (All companies)

	Board Diversity	Strategic Influence
Board Diversity	1.0000 (n=34)	.1762 (n=34) P= .319
Strategic Influence	.1762 (n=34) P= .319	1.00 (n=34)

(2-tailed Significance)

Table 22: Correlation Between Operational Influence and Diversity (All companies)

	Board Diversity	Operational Influence
Board Diversity	1.0000 (n=34)	.2035 (n=34) P=.248
Operational Influence	.2035 (n=34) P=.248	1.00 (n=34)

(2-tail Significance)

Table 23: Correlation Between Strategic Influence and Diversity (Foreign Companies)

	Board Diversity	Strategic Influence
Board Diversity	1.00 (n=14)	.2481 (n=14) P= .392
Strategic Influence	.2481 (n=14) P= .392	1.00 (n=14)

(2-tailed Significance)

Tables 24 and 25 provide demographic factors such as tenures of board members and the number of board commitments. The tables indicate that most board members have long tenures on the boards and sit on a number of boards and, therefore, have extensive business and local experience.

Table 24: Tenures on the Board

	Years on the Board					
	1-5	6-10	11-15	16-20	21-25	26+
# of board Members	108	69	20	7	3	4
Percentage	51.2%	32.7%	9.5%	3.3%	1.4%	1.9%
N = 211, Mean = 6.5 years, Mode = 1 year						

6.9 Board Meetings

On average the subsidiary boards of MNEs met 2.6 times in a year (Table 26). Two of the companies met once in a year for the annual general meeting only. Boards of four companies met four times in a year and that was the highest frequency. Boards of local companies met on average 3.8 times, with only one board meeting once in a year (minimum) and one board meeting as often as seven times in a year. It is clear from this that subsidiary boards met fewer times than LOC boards.

Table 25: Number of Board Commitments per Board Member

	Number of Board Commitments				
	1-5	6-10	11-15	16-20	21+
Number of Board Members	102	64	25	15	5
Percentage of Total Members	48.3%	30.3%	11.9%	7.1%	2.4%

N = 211, Mean = 7.6 Board Commitments, Mode = 1

In terms of the time that board members spent attending to company business, directors of local companies spent on average three hours in a month. Their counterparts in MNE subsidiaries spent 1.9 hours in a month on company business (Table 27). None of the companies in the sample had board committees. A few formed ad hoc committees for specific matters. Absence of such committees can be attributed to the small size of the boards and their low level of influence.

Table 26: Number of Board Meetings in a Year

Frequency	Local Companies	Foreign Companies
1	1	2
2	3	5
3	5	3
4	6	4
5	2	0
6	2	0
7	1	0
Mean	3.8	2.6
SD	1.5	1.1

t-value = 2.34

Significant at .05 level

Table 27: Hours/Month Attending Company Business

Value	LOCs	MNEs
0	1	1
1	8	5
2	7	4
3	2	3
4	0	1
5	0	0
6	1	0
8	1	0
20	1	0
Totals	20	14
Mean	3	1.9
Mode	1	1

The above clearly indicates that subsidiary directors spend significantly less time at board meetings and attending to company business outside the boardroom than LOC directors. Subsidiaries also hold fewer meetings than LOCs. One conclusion that can be drawn from this is that subsidiary boards have little involvement in the decision making process in the organizations on whose board they sit. Boards that meet less often are not readily available to make critical decisions when required. Therefore the management team either makes most decisions or consult individual board members where required.

6.10 Hypothesis Testing

The previous sections have discussed the various findings of this study. The following sections summarize the findings with respect to each of the eight hypotheses that were formulated at the beginning of the study.

Hypothesis 1: Subsidiary boards of ethnocentric MNEs will have more expatriate directors than boards of other MNEs.

Although, in general, the results suggest that ethnocentric MNEs preferred to recruit more expatriates onto their boards than MNEs which did not have a preference for home country managers in filling top positions in the subsidiaries, the difference was not statistically significant. But it was not clear whether this was a done as a company policy or subconsciously. This practice can be understood in view of the fact that board members

are recommended and appointed mostly by the chief executives, the board or shareholders themselves. Therefore, they are more likely to recruit directors from their own business and social circles.

Hypothesis 2: Boards of ethnocentric local companies will have more local directors than boards of other local companies.

This second hypothesis was not supported as ethnocentric local companies did not have significantly more local directors than local companies that had no special preference for local managers in the recruitment of senior positions. The average percentage of local directors was almost the same for both types of companies.

Hypothesis 3: BODs of MNE subsidiaries will include at least one regional or head office corporate board member.

The results strongly support this hypothesis. All MNE subsidiaries had at least one regional or head office representative on the local board. Two such members was the norm. As pointed out, it was found that boards had representatives of every major shareholder. So it was expected that MNE subsidiaries would have external regional or head office representation.

Hypothesis 4: Local boards of wholly owned subsidiaries have less influence on the subsidiary company's policies than those with local ownership.

The predicted relationship between subsidiary ownership and the level of strategic influence was not supported by the findings in this study. It was not statistically obvious that strategic decisions in wholly-owned MNE subsidiaries were influenced less by the local board than in jointly-owned companies.

Hypothesis 5: MNE subsidiary BODs will have more executive directors that BODs of local companies.

The data supported the proposition that MNEs will have more executive directors on their boards than local companies, at 95% level of significance. One hundred percent of all MNEs had executive directors compared to sixty percent for local companies.

Hypothesis 6: The subsidiary boards of MNEs will be smaller than those of local companies.

Although subsidiary boards of local companies were larger than those of MNE subsidiaries, the difference was not statistically significant and therefore, this hypothesis was not supported. This suggests the existence of other better predictors of board sizes.

2 OF/DE 2

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Hypothesis 7: The larger the board is, the more diversified it will be.

This hypothesis was strongly supported by the data. There was a strong positive relationship between board size and diversity suggesting that board size was a good predictor of board diversity.

Hypothesis 8: Diversified boards will be more effective than those that are not diversified.

The findings in the study showed a weak positive relationship between board diversity and effectiveness. This is despite the support for individual effectiveness being determined by individual qualities. The positive relationship that exists is not statistically strong enough to support the hypothesis.

Chapter 7: CONCLUSIONS

This thesis generated a number of conclusions regarding the composition, functions and effectiveness of subsidiary boards of directors of MNEs. The findings of this study may be of interest to academics, multinational companies as well as host governments. This section discusses the conclusions drawn from this study.

It appears, from this study, that board composition is more a function of shareholders's representation rather than expected contribution of the members. All subsidiary companies, MNEs and LOCs, had head office representatives on their boards. Most LOC subsidiaries had over fifty percent of the members from the head office. This practice does not really reflect the traditional expectation of the composition of boards of directors and it was tantamount to having an almost entirely executive board. This has the effect of lowering diversity and narrowing the perspective of the board in terms of their external experiences.

Secondly, it was evident that the higher the number of shareholders was, the larger the boards were. This was typical and was also applicable to both local and foreign companies that had a diverse ownership pattern. This emphasizes the premium shareholders put on their direct representation on the board.

As expected, most boards of wholly-owned subsidiaries had few board meetings in a year, spent little time attending to company business and contributed little in making strategic decisions affecting the subsidiary. Most of the time they rubber-stamped the decisions. MNE subsidiaries that had over forty percent local ownership required board members to meet and deliberate on major decisions since the members represented different shareholders and their inputs and agreements were required on such decisions. This leads to the conclusion that boards of joint ventures and companies that have diverse ownership are given more mandate to direct the companies than others.

Although companies ranked local environmental and business experience as the most important factors for board effectiveness, this was not reflected in their board selection. The importance of personal representation of shareholders was also evident in considering individuals for board appointment. The individual board member's relationship to shareholders was ranked as the second most important quality for board members' effectiveness after business experience.

Most large boards were diverse and the most popular functional areas from which board members were chosen were the general management and accounting areas. Those referred to as being in general management were mostly executives of other firms. But there was a clear preference for accountants. This underscores the fact that the performance of

companies is most often evaluated through the accounting books and an understanding of this is desired in the boardroom. However, in the modern competitive and diverse business environment, boards are called upon to make major decisions such as investment in information technology for competitiveness, marketing strategies, legal complexities which require multidisciplinary approaches. There is a need for companies to consciously seek diversity on the boards to include key areas that are underrepresented such as banking, information systems, engineering and other special interest groups. Otherwise board meetings end up concentrating on financial issues.

To some extent the company staffing policy is also extended to the recruitment of board members. There will, therefore, be many similarities in the line of thinking of the board and the management team. This obviously reduces conflicts and increases consensus between these two groups. It is questionable whether this is in the interest of the company as discerning questions may not be raised in the boardroom.

Board members as representatives of the shareholders, seemed not to be given the authority to carry out their duties in MNE subsidiaries. This is clear when we look at the little time board members spend each month attending to company business. The function of most boards was reduced to mere endorsing decisions made by the Chief Executive

after consultations with the head office directors. In such a set up, the CEO provided most of the information about the local business environment.

It can be concluded that MNE subsidiary boards are not used effectively to control the operation of the subsidiary as would have been expected. The question is whether both host governments and MNEs are satisfied with the status quo. Obviously, the host government wants the local boards to effectively reflect local public interest and the MNE would like the board to take care of its interest. Since this is by design, the MNEs have effective centralized control over the destiny of the subsidiaries. The fact that the local boards have low influence may reflect the lack of trust or commitment of the MNE with respect to the board.

8. LIMITATIONS OF THE STUDY

This chapter covers some of the limitations that are associated with this particular study. First of all, the study may lack both external and internal validity. As the study was done in only one developing country, a main limitation of study is the generalization of the composition and controlling powers that subsidiary boards operating in other countries have. Board member composition may be significantly different as a result of country-specific statutory requirements. It is also expected that the subsidiary boards in highly industrialised countries will play a different role from those in less industrialised countries. A comparative study would be more appropriate. Time and cost factors were constraints in this study.

Secondly, the number of companies studied were twenty and fourteen in each sample of local and foreign companies respectively. These are small samples. As a result, not all industries were well represented. The manufacturing industry comprised almost sixty percent of all companies in the samples (Table 3). Therefore, the results of the study may be skewed in favour of manufacturing companies.

Thirdly, with respect to internal validity, this study did not cover other parameters that may influence the role of the board such as whether the company is labour or capital

intensive, the technology in use, age of the organization, management capability, among others. These are worth considering.

Fourthly, it was observed that there were marked differences between the composition and functions of the subsidiary boards of wholly-owned foreign companies and those that were joint ventures with local companies. These differences were not given much prominence in the study. These companies could have been better analyzed as a separate sample rather than categorized with the wholly-owned subsidiaries. Therefore, the findings of this study should be used with caution.

The distinction between expatriates and local managers was not exact. This is because there are 'expatriates' who have lived in the country for a number of generations but could not obtain Malawian citizenship. A different definition may possibly produce different results. But for the purposes of this study, a broad definition was good enough.

Finally, it was observed that all companies had a large number of expatriate board members. Board member composition may also be a function of the national education level and the availability of local managers to be recruited to the boards of MNE subsidiaries. Comparative country ratios of levels of education and proportions of local directors would be interesting to look at but this is beyond the scope of this study.

Despite these constraints, this study does provide a basis for comparison with other research findings from other similar or different countries.

9. BENEFITS OF THE STUDY

This study, being the first of its kind, has a number of benefits and implications to academics, host government policy-makers and managers involved in international business management. This section outlines how each of the above classes may benefit from this study.

9.1 Business Managers

First of all, the study has further highlighted a management control tool that the author believes has not received much attention in international business management. As MNEs are looking at alternative ways of controlling their subsidiaries [Prahalad and Doz, 1991], they can also consider effective ways of using the local boards of directors in controlling the subsidiaries. The deficiencies that have been identified in the composition and functionality of the subsidiary boards need to be addressed in order to make the boards more effective. This will cut costs of centralized decision-making.

Secondly, money and time are spent on subsidiary board of directors and board meetings. These will be worthwhile expenses if the boards contribute to the overall success of the organization and to satisfying the expectations of the companies' various stakeholders. Nearly all the chief executives interviewed felt that their boards were adequate. This could

be interpreted to mean that they were doing their 'rubber-stamping' job effectively. Many boards scored above average on strategic decision-making whilst all they were doing was approving decisions. This is either an understatement of the roles of the board or an acknowledgement of the dormant role played by the board members on company policy decisions.

The study has identified qualities in directors, in general, that make them effective. One that needs special mention is the understanding of the local business environment. Organizations and host governments can use this to determine the composition of subsidiary boards of directors to ensure their potential effective control. As boards of local companies were also included in the sample, the study is similarly useful to owners of local company in deciding board members' roles and composition.

Some of the findings in study give an indication of the practice in Malawi, an African developing country. Similarities and differences with practices in other regions or countries could be used by the MISE to make region-specific policy decisions regarding the composition and the empowerment of subsidiary BODs in their international operation.

9.2 Host Country Policy-Makers

Host country policy-makers who wish to augment the control of the activities of subsidiaries of multinational enterprises, especially the developing countries, could, on the basis of the results of the study, appropriately change laws that affect composition and roles of board of directors to shift powers to host country nationals or local boards of directors.

9.3 Researchers

Findings in this study are also of interest to other researchers. As the first of its type, it has put pointers in another area of research in international business management.

Secondly, this study will provide a basis for future comparative studies in this area. Studies carried out so far on subsidiary boards of directors have been done in developed and developing countries of Asia and Latin America.

Companies in Malawi are not used to taking part in research. Hence, the author faced problems in obtaining information about companies and scheduling interviews. From this experience, future researchers in Malawi may be able to obtain information more efficiently from the sources that have been identified in this study and avoid time-wasters.

Finally, all executives that were interviewed expressed interest in receiving summary reports of this study. This in itself is a positive sign and hope that future researchers will get more cooperation. Should the managers consider the reflections in this study useful, it may also create demand for other business research projects, which are rare in Malawi.

Chapter 10: FUTURE RESEARCH

As a result of this study, a number of research areas that are of interest have been identified. In order to fully understand and improve upon the roles of local boards of directors of multinational subsidiaries, more research in this area is required.

Whilst host governments may prefer to increase the participation of locals through membership on subsidiary boards, MNEs could consider ways of motivating local boards of directors in order for them identify themselves with parent company objectives. As a result, local boards could be given more controlling powers without jeopardizing the company's objectives. This is one useful future research area.

Secondly, the availability of trained human resources to be coopted into the various boards could be a factor in the participation of local managers on boards. Research into the comparison of availability of local managers and the proportion of expatriate managers on the board would be useful to MNEs in making policies on specific countries on their subsidiary board composition.

This study did not analyze the size, sector and age of the companies to evaluate the impact they would have on the composition, size and effectiveness of the boards of

directors. Evaluation of these additional parameters is another area of possible future research on this subject.

The study originally intended to include interviews with non-executive board members as well but time constraints prevented this. Therefore, the study was based on responses obtained from CEOs and a few executive board members. It will be important to get the views of external board members regarding their roles and factors they consider important for their effective contribution on the board. It is hoped that future researchers will take this into consideration.

As this was a one-country study, it provides set a of data for comparative studies with other countries for researchers interested in this field. For example, it would be interesting to establish the effect of strict laws on joint ventures on the subsidiary board size and effectiveness. This study originally did not put joint ventures as a separate category. However, boards of partly-owned foreign companies reflected characteristics that were different from both wholly-owned local and foreign companies. This distinction needs further research.

Malawi has just changed to political pluralism⁷. It was pointed on a number of occasions, that two years earlier, political connections would have ranked high on qualities sought for board members' effectiveness. Companies operating in a dictatorship may have to respond to different political pressures from those in democratic countries. This would be another area of research interest.

⁷ Refer to notes on Malawi in the Appendix B.

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APPENDIX A: Additional Information

As mentioned at the beginning of chapter 6, a great deal of data, which was not directly relevant to the testing of the hypotheses in this research, was also collected. This data, however, has some bearing to the subject and this appendix briefly discusses the additional findings based on this data.

A.1 Shareholding

According to Table 28, there was a significant difference between the number of shareholders in local and foreign companies. On average, there were more shareholders in local companies than in foreign companies. This is despite the fact that in each category about seventy percent of the companies had no more than two shareholders. This may be a reflection of more centralized ownership and control in MNE subsidiaries and the facilitation of centralized decision-making from the parent company.

Similarly, on average, local companies had 1.90 local shareholders and MNE subsidiaries had .93 local shareholders (Table 29). This was a statistically significant difference. It is, however, not surprising as local companies are expected to have a much higher proportion of local shareholders than MNE subsidiaries. Although joint ventures are encouraged by the government, fifty percent of the foreign subsidiaries had no local shareholders.

Table 28: Total Number of Shareholders

Number of Shareholders	Frequency	
	Local companies	Foreign Companies
1	7	5
2	7	3
3	4	2
4	1	2
5	1	0
Total	20	14
Mean	2.10	2.07

Significant at .05 Level

Table 29: Total Number of Local Shareholders

Number of Shareholders	Frequency	
	Local companies	Foreign Companies
0	0	7
1	10	3
2	4	2
3	5	2
4	0	0
5	1	0
Total	20	14
Mean	1.40	.93

Significant at .05 Level

Table 30: Total Number of Foreign Shareholders

Number of Shareholders	Frequency	
	Local companies	Foreign Companies
0	16	0
1	1	11
2	0	3
Total	20	14
Mean	.05	1.21

There was a major difference in the number of foreign shareholders that the local and foreign companies had (Table 30). MNE subsidiaries had at least one foreign shareholder as expected against only four out of the twenty local companies that had any foreign shareholders. Therefore, most board members of the local companies were resident within the country and expected to attend most board meeting to make decisions.

A.2 Middle Managers (MM)

In any organization top managers/leaders are identified from the middle level management team. The middle management is generally the operational group that advises the CEO on operational matters and decisions made by the CEO will also reflect the contribution and quality of this team. Therefore, the study attempted to identify the composition of the MM group as well.

Table 31: Total Number of Local Middle Managers

Number of Managers	Frequency	
	Local companies	Foreign Companies
0	0	1
1	2	2
2	2	5
3	6	2
4	4	3
5	4	0
6	2	1
Total	20	14
Mean	3.6	2.57

Nearly all companies had a much larger number of Malawian than expatriate MMs. On average, local companies had 3.60 Malawian MMs and MNE subsidiaries had an average of 2.57 Malawian MMs (Table 31). However, this difference is not significant.

Fifty percent of the foreign companies and sixty percent of the local companies did not have any expatriate MMs (Table 32). There was no notable difference in the number of expatriate MMs between local and foreign companies. However, there was a significant difference between the number of total expatriate and Malawian MMs in all the thirty four companies. Therefore, the day-to-day operational management of the companies was more in the control of local than foreign MMs. This reflects the availability of local human resources and the confidence of companies in both types of companies in the capability of local MMs.

Table 32: Total Number of Expatriate Middle Managers

Number of Managers	Frequency	
	Local companies	Foreign Companies
0	12	7
1	4	1
2	1	4
3	3	2
<hr/>		
Total	20	14
Mean	.75	1.07
<hr/>		

All managers interviewed said that cost was the major consideration in recruiting MMs. Obviously, local managers cost much less than expatriate managers at the same level of competence. Some MNE subsidiaries had strict policies to staff all positions within the organization with local resources apart from the CEOs position only. Therefore, even though there may be capable local managers that could be promoted to the CEOs position from amongst the MMs, preference would be to recruit an expatriate as a matter of company policy.

A.3 Decision-making Processes

Question 38 to 46 in the interview schedules in Appendices E and F were designed for the purpose of examining the loci of various key decisions in the companies that were sampled. Tables 33 and 34 summarize how each of the chosen key decision is made in

local and foreign companies. The decision numbers refer to the question numbers and the letters refer to the loci where decisions were made as designated in Appendices E and F.

Table 33: Decision-Making Loci (Local companies)

Decision Number	Decision loci in percentages of respondents								
	A	B	C	D	E	F	G	H	Total
38	20	0	0	25	30	25	0	0	100%
39	0	0	0	20	0	80	0	0	100%
40	0	5	0	15	5	75	0	0	100%
41	0	10	35	15	40	0	0	0	100%
42	10	5	10	50	10	15	0	0	100%
43	5	5	0	55	25	0	10	0	100%
44	10	0	0	15	5	0	70	0	100%
45	5	10	10	10	25	40	0	0	100%
46	5	20	5	40	25	0	5	0	100%
Means(%)	6.1	6.1	6.7	27.2	18.3	26.1	9.5	0	100%

The highest number of decisions in local companies, 27.2% (Table 33) were recommended to the board for approval and the second highest number of decisions were made in-house. This contrasts with MNE subsidiaries (Table 34) in which 35% of the decisions were made in-house without referring to the board and the second highest number of decisions were referred to the head office for approval. The board was the third most important level to which decisions in MNE subsidiaries were referred. The head office was the third most important level to which decisions were referred for local companies that were subsidiaries.

Table 34: Decision-Making Loci (Foreign companies)

Decision Number	Decision loci in percentages of respondents								
	A	B	C	D	E	F	G	H	Total
38	0	14	0	0	36	43	7	0	100%
39	0	14	0	0	36	50	0	0	100%
40	0	7	0	0	7	86	0	0	100%
41	0	0	0	36	21	43	0	0	100%
42	0	0	21	14	36	29	0	0	100%
43	0	0	0	29	71	0	0	0	100%
44	0	0	0	14	7	7	65	7	100%
45	14	14	0	0	22	50	0	0	100%
46	0	7	7	14	65	7	0	0	100%
Means(%)	1.6	6.2	3.1	11.9	33.4	35.0	8.0	0.8	100%

This reinforces the notion that local companies have more reliance on the board for major decisions and MNE subsidiaries make most decisions internally in consultation with the head office.

The major decisions that were referred to the MNE head office were the raising of capital, capital investment (finance decisions) and the remuneration package for senior managers. Product line composition, replacement of middle managers, choice of major suppliers, company regulations and the determination of budget were decided in-house. Research and Development (R&D) budget determination was not applicable to MNEs as this was considered a corporate decision and activity.

Local companies sought board approval for remuneration packages for senior managers, capital investment and the raising of capital as opposed to MNE subsidiaries who sought head office approval for the same decisions. Replacement of middle managers was either decided in-house, referred to the board or head office, where applicable. there was no single decision locus for this decision amongst the local companies.

Product line composition, choice of major suppliers, and company regulations determination were made in-house just as MNE subsidiaries did. Similarly, R&D decisions were irrelevant to local companies as very little of this activity is carried out in Malawi.

The above discussion clearly demonstrates that there are many similarities in the way decisions are made in local companies and MNE subsidiaries. The only major difference was that MNE subsidiaries sought head office approval on finance and remuneration decisions whilst the local companies referred these to the local board of directors. This underscores the influential position of boards of local companies and head office personnel on the operation of the companies.

A.4 Impact of South Africa

The recent political changes in South Africa have created a lot of economic interest, amongst others, to the neighbouring countries in Africa and the rest of the international

business community. This is because South Africa is an economic powerhouse in the region, is endowed with a many natural resources such as minerals, it is very developed and is a potentially vast market for industrial goods. For the above reason, the researcher considered it appropriate to solicit views from the respondents to this survey, as to the likely impact of the changes in South Africa to the way business is done in Malawi especially in view of the close links that Malawi has had with South Africa⁸.

Malawian companies exporting to South Africa stated that their South African market would shrink a lot because they were now going to face stiff competition from new entrants from other countries that imposed a trade embargo against South Africa. Malawian goods that had been exempted from import duty in South Africa were now dutiable. This made them less competitive.

There were no new threats to locally consumed goods as South African imports have always dominated the Malawi marketplace. As South Africa accesses better technology,

⁸ Malawi was the only African country to have diplomatic relations with South Africa up until the 1994 change to all race democracy in South Africa [The Economic Intelligence Unit, 1994-95]. Malawi justified this because it is landlocked and relies on South African ports for the transshipment of its imports and exports. South Africa is the largest exporter to Malawi and the third largest consumer of Malawian exports after U.S.A. and Japan. South African exports comprise fifty percent Malawian imports [The Economic Intelligence Unit, 1995]. Therefore, Malawi preferred facing ostracism by the rest of Africa and benefitting from openly trading with South Africa to cutting links with South Africa, an economic and military power in the region.

it is expected that this will trickle down to Malawi and also make South African products cheaper to Malawian consumers.

Many MNE subsidiaries considered the change in South Africa as an opportunity to their companies for an expanded market in the region. None of the companies anticipated a move of their regional offices to South Africa in the near future. For example, the researcher works for an international organization which has Africa as a region reporting to the head office, and South Africa as a major market reports directly to the head office. There are no plans to change this organizational structure mainly because the South African economy has more resemblance to western economies than neighbouring African countries. Therefore, the market needs of South Africa are different.

APPENDIX B: Notes on Malawi

The data for the study were collected in Malawi. Malawi is a small, southern African country that is bordered by Mozambique in the east and south, Zambia in the west and Tanzania in the north. It was a British colony until 1964 when it became independent. From 1964 to 1993, it has been a one-party autocratic state and has been ruled by only one president.

Over 85 percent of the population of nine million live in rural areas and are dependent on subsistence farming. The major cash crops are tea, tobacco, cotton, coffee and sugar. The commercial sector is small.

The government policy has been attempting to encourage foreign investment through low corporate taxes, currently at 35% of profit, low wages and no restriction to the repatriation of profits after tax for multinational enterprises [Gaskell, 1992]. Businesses have been operating freely and, unlike other developing countries, there were no mass nationalization of MNEs after independence, although there was a forfeiture act which empowered the government to take over any businesses, local or multinational, that it considered economically subversive. However, this act was used, on a number of occasions, to expropriate businesses of local political opponents.

The party and the president that ruled the country for over 30 years were voted out in multi-party elections held in June, 1994. The new government has promised to encourage foreign investors and improve wages and working conditions. As the constitution has been rewritten, it is expected that there will be major revisions of the laws.

Despite long political stability and economic incentives to attract foreign investment into the country, few new companies have invested in the country in the last 20 years. Traditional multinationals have been from Britain for historical reasons. For example, Lonrho⁹ has been a dominant investor in the economy of Malawi. Other multinationals are from Germany, the United States of America, South Africa, France, Netherlands and Japan. Low foreign investment has partly been due to the small domestic market size due to the small population and a low per capita income of US \$164 [The Economic Intelligence Unit, 1994]. The age of the former president, who was over 90 years old, and the lack of a clear successor during the one-party rule, was also a major concern amongst the business community during the last 20 years of this dictatorship.

LONRHO stands for LONDON and RHODESIA (now called Zimbabwe). This is a British MNE that was established in the late 60s and initially operated in the United Kingdom and Rhodesia. It has major investments in most of anglophone Africa, the Caribbean and Middle East countries. Its operations are mainly in mining, retail, sugar, and textile industries. 'Tiny' Rowland, a well-known figure in the U.K., has been its chief executive for a long time.

APPENDIX C: Letter of Introduction from the Supervisor

[School of Business letterhead]

December 22, 1994

Dear Sir:

This is to introduce George Nnensa, a graduate student at the School of Business of Carleton University. Mr. Nnensa is currently undertaking the research for his Masters degree in Business. He is examining the role that Boards of Directors play in the operation of foreign and domestic firms in Malawi. The data for the study will be collected through interviews with members of a number of randomly-selected organizations. It is only through interviews that the required information can be obtained. The information will, of course, remain confidential. No company or individual will be identified and results will be reported only in the aggregate. Participating firms may obtain a summary of the final results if they wish.

The research that Mr. Nnensa had undertaken will prove valuable in both academic and practical terms. There is far too little understanding of the strategic thinking that motivates managers and directors in Africa. This research will help provide a clearer, more detailed picture of management in this increasingly important area. As Mr Nnensa's thesis supervisor, I would very much appreciate any cooperation that you may give him in his efforts.

Sincerely,

David Cray
Associate Professor

APPENDIX D: Letter of Introduction from the Researcher

c/o ICL (Malawi) Limited,
P.O. Box 1904,
BLANTYRE.

11th January, 1995.

[Company name and address]

Dear Sir,

In partial fulfilment of my Master's Degree in International Business Management, I am currently collecting data for my business research thesis project.

Your organization has been randomly selected to participate in this project. I will call you in a couple of days to schedule the date and time for the interview.

Please find attached an introductory letter from my thesis supervisor. Your assistance on this matter will be greatly appreciated.

Yours faithfully

George A. Nnensa

APPENDIX E: Interview Schedule (Foreign Companies)

INTERVIEW SCHEDULE

The objective of this study is to find out the composition and roles of board of directors in controlling the activities of the business organizations. The organizations sampled have been chosen at random and only aggregated responses will be revealed. The interview will be tape-recorded. If you have any objections to this please say so. You are also free to request that certain parts of the interview should not to be tape-recorded. The interview is estimated to take about one hour.

Recorded 1. Yes

2. No

Date : ../../..

Time :

A. GENERAL/COMPANY

1. Interviewer to reconfirm the following information at the beginning of the interview, if necessary:

a. Respondent's Name :.....

b. Respondent's Title:.....

c. The name and address of the subsidiary organization:

.....
.....
.....
.....

d. Telephone number:

e. The name of the parent company

.....

f. Location of the head office

g. The parent company's home country

2. On a scale of 1 to 7, how important do you rate the following activities in your organization?

		Not Important				Very Important		
a.	Marketing	1	2	3	4	5	6	7
b.	Manufacturing	1	2	3	4	5	6	7
c.	Services	1	2	3	4	5	6	7

3. Approximately, how many employees are there in your subsidiary?
4. When was the subsidiary established?

B. OWNERSHIP

5. Approximately, what percentage of the shares of the subsidiary are foreign owned?
6. If there is more than one foreign shareholder, what percentage of the shares is held by the parent company?
7. What percentage of the shares are held by the largest single local owner or group?
8. What changes, if any, have taken place within the past five years in the company's ownership structure?

C. THE BOARD COMPOSITION

9. How many members are on the board?
10. How many board members are resident in the country?
11. How many resident board members are employees of the subsidiary?
12. How many board members are not resident in the country?
13. How many non-resident board members are employees of the multinational company?

14a. Does the parent company have regional headquarters?

1. Yes 2. No

14b. If the response to question 14a is 'Yes', how many board members are from the regional office?

15. How many board members are from the head office?

16. Please provide the following details about each board member:

- a. Functional areas:
1. Marketing
 2. Finance or Accounting
 3. General Management
 4. Information Systems
 5. Engineering
 6. Legal
 7. Other (specify)

b. Levels of influence

Not Influential
at all

Very influential

1 2 3 4 5 6 7

Name or Initials	Exp-at?	No. of Years on the Board	No. of Other Board Commitments	Board committees	Residency Foreign or Local	Functional Area	Lev of Inf

17. How many resident board members are executives of other firms?
18. How many non-resident board members are executives of other firms?
19. How many board members are politicians or have some political influence locally?

20. Please list any board members that represent special interest groups, if any.

Member's Name or Initials	Group

- 21a. Are you aware of any regulatory restrictions as to the composition of the board?
- 21b. If the response to question 21a is 'yes', please explain what they are.

C. APPOINTMENT OF BOARD MEMBERS

22. Who appoints directors to the board?
23. Who makes recommendation for the appointment?
24. What criteria are used to appoint board members?

D. BOARD MEETINGS AND INFLUENCE

25. How often does the board meet in a year?
26. On average, how many members attend board meetings?
27. If not all board member attend all meetings, please explain?

- 28a. In general, on a rating of 1 to 7, how much influence does the local board have on the organization's strategic business decisions?

None at all							Very much
	1	2	3	4	5	6	7

- 28b. Please give reasons for your response to question 28a if the rating given is 1, 2, 6 or 7.

- 29a. In general, on a rating of 1 to 7, how much influence does the local board have in the day-to-day running of the organization?

None at all							Very much
	1	2	3	4	5	6	7

- 29b. Please give reasons for your response to question 29a if the rating given is 1, 2, 6 or 7.

30. How important are the following qualities in the level of influence the individual members on your board exert?

	Not important						Very Important
a. Educational	1	2	3	4	5	6	7
Qualifications							
b. Political	1	2	3	4	5	6	7
Connections							
c. Professional	1	2	3	4	5	6	7
Qualifications							
d. Insider/Outsider	1	2	3	4	5	6	7
Status							
e. Business	1	2	3	4	5	6	7
Connections							
f. Relationship	1	2	3	4	5	6	7
with s/holders							
g. Business	1	2	3	4	5	6	7
Experience							

- h. Please mention any other qualities that you think are important on the individual board members level of influence.

Quality	Level of Importance

31. In your view, how much time, in hours, on average, do board members spend each month on the company's business?

E. STAFFING POLICY

32. What is the nationality of the chief executive?
33. How long has the chief executive been in this job?
34. Please indicate the nationalities of the managers who report directly to the chief executive.

Title	Nationality

35. What were the nationalities of the previous three Chief Executives?

40. Choice of major suppliers
41. Determination of annual budgets.....
42. Remuneration packages for senior members.....
43. Capital investment.....
44. R & D budget.....
45. Company regulations.....
46. Raising of capital.....
47. Is there anything that the board has a lot of influence on?
48. In your view, which of the following best describes the parent company's practice towards controlling subsidiary operations:
 - a) The headquarters has tight control over the subsidiary and its operations through procedures and policies established at headquarters.
 - b) The headquarters maintains very loose control over the subsidiary and its operations.
 - c) The headquarters coordinates subsidiary operations on regional or international basis while subsidiaries make basic decisions.
 - d) Other (Specify)
49. What areas are most controlled by the head office?
50. What areas are least controlled by the head office?

G. ADDITIONAL QUESTIONS

51. Do you have any written rules or regulations specifying the chief executive's levels of authority in making decisions?

(If the answer is yes, please try to get a copy. If the answer is no, skip to question 54).

52a. On a scale of 1 to 7 how importance do you consider these rules or regulations to your operations?

Not important

1

2

3

4

5

Very important

6

7

52b. Please give reasons for your response to question 52a if the rating given is 1, 2, 6 or 7.

53. What other comments do you have regarding these rules, if any?

54. Do you have any comments regarding the composition of your board?

55. Do you have any comments regarding the powers given to your board?

56a. If you were to make changes to the composition of your board what would they be?

56b. Why or why not?

57. Do you have any other information that may be of interest to my study?

Closing remarks:

Thanks for your assistance in providing the data for my study. A summary of the results can be made available to you, if you so wish. Y/N

APPENDIX F: Interview Schedule (Local Companies)

INTERVIEW SCHEDULE

The objective of this study is to find out the composition and roles of board of directors in controlling the activities of the business organizations. The organizations sampled have been chosen at random and only aggregated responses will be revealed. The interview will be tape-recorded and if you have any objections to this please say so. You are also free to request that certain parts of the interview should not to be tape-recorded. The interview is estimated to take about one hour.

Recorded 1. Yes

2. No

Date : ../../..

Time : ..:..

A. GENERAL/COMPANY

1. Interviewer to reconfirm the following information at the beginning of the interview, if necessary:

a. Respondent's Name :

b. Respondent's Title:

c. The name and address of the organization:

.....
.....
.....
.....

d. Telephone number:

e. The name of the parent company, if this is a subsidiary company.

.....

f. Location of the head office

2. On a scale of 1 to 7, how important do you rate the the following activities in your organization?

		Not Important				Very Important		
a.	Marketing	1	2	3	4	5	6	7
b.	Manufacturing	1	2	3	4	5	6	7
c.	Services	1	2	3	4	5	6	7

3. Approximately, how many employees are there in your organization?
4. When was the company established?

B. OWNERSHIP

5. Approximately, what percentage of the shares of the company are foreign owned?
6. If there is more than one foreign shareholder, what is the largest block of shares that is held by one shareholder?
7. What percentage of the shares are held by the largest single local owner or group?
8. What changes, if any, have taken place within the past five years in the company's ownership structure?

C. THE BOARD COMPOSITION

9. How many members are on the board?
10. How many board members are resident in the country?
(explain the definition of residency in this context)
11. How many resident board members are employees of the company?
12. How many board members are not resident in the country?
13. How many non-resident board members are employees of the of external shareholders?
14. In total, how many expatriates do you have on the board? (explain the definition of an expatriate board member)
15. If your organization is a subsidiary, how many board members are employees of the head office?

17. How many resident board members are executives of other firms?
18. How many non-resident board members are executives of other firms?
19. How many board members are politicians or have some political influence locally?
20. Please list any board members that represent special interest groups, if any.

Member's Name or Initials	Group

- 21a. Are you aware of any regulatory restrictions as to the composition of the board?
- 21b. If the response to question 21a is 'yes', please explain what they are.

C. APPOINTMENT OF BOARD MEMBERS

22. Who appoints directors to the board?
23. Who makes recommendation for the appointment?
24. What criteria are used to appoint board members?

D. BOARD MEETINGS AND INFLUENCE

25. How often does the board meet in a year?
26. On average, how many members attend board meetings?
27. If not all of the board members attend all board meetings, please explain.
- 28a. In general, on a scale of 1 to 7, how much influence does the board have on the organization's strategic business decisions?
None at all							Very much
	1	2	3	4	5	6	7
- 28b. Please give reasons for your response to question 28a if the rating given is 1, 2, 6 or 7.
- 29a. In general, on a scale of 1 to 7, how much influence does the board have in the day-to-day running of the organization?
None at all							Very much
	1	2	3	4	5	6	7
- 29b. Please give reasons for your response to question 29a if the rating given is 1, 2, 6 or 7.

30. How important are the following qualities in the level of influence the individual members on your board exert?

	Not important					Very Important	
a. Educational Qualifications	1	2	3	4	5	6	7
b. Political Connections	1	2	3	4	5	6	7
c. Professional Qualifications	1	2	3	4	5	6	7
d. Insider/Outsider Status	1	2	3	4	5	6	7
e. Business Connections	1	2	3	4	5	6	7
f. Relationship with s/holders	1	2	3	4	5	6	7
g. Business Experience	1	2	3	4	5	6	7

- h. Please mention any other qualities that you think are important on the individual board members level of influence.

Quality	Level of Importance

31. In your view, how much time, in hours, on average, do board members spend each month on the company's business?

E. STAFFING POLICY

32. What is the nationality of the chief executive?

33. How long has the chief executive been in this job?
34. Please indicate the nationalities of the managers who report directly to the chief executive.

[illegible]

35. What were the nationalities of the previous three chief executives?

Predecessor	Nationality

- 36a. How important is the nationality in the recruitment of the chief executives?
Very Important Not Important
1 2 3 4 5 6 7
- 36b. Please give reasons for your response to question 36a if the rating given is 1, 2, 6 or 7.

- 37a. How important is the nationality in the recruitment of the heads of departments?
Very Important Not Important
1 2 3 4 5 6 7
- 37b. Please give reasons for your response to question 37a if the rating given is 1, 2, 6 or 7.

F. DECISION MAKING

When making the following decisions, which of the following procedures do you follow (questions 38-46)?

- a. Refer to the local board for guidance.
 - b. Make the decision and advise the board and head office.
 - c. Ask the regional or head office to decide.
 - d. Make recommendations for the board to approve.
 - e. Make recommendations for the head office to approve.
 - f. In-house
 - g. Not applicable
 - h. Other (specify).
38. Replacement of the head of a department.
39. Product line composition.....
40. Choice of major suppliers
41. Determination of annual budgets.....
42. Remuneration packages for senior members.....
43. Capital investment.....
44. R & D budget.....
45. Company regulations.....
46. Raising of capital.....

47. Is there anything that the board has a lot of influence on?

(Ask questions 48 - 50 if the organization is a subsidiary)

48. In your view, which of the following best describes the parent company's practice towards controlling subsidiary operations:

- a) The headquarters has tight control over the subsidiary and its operations through procedures and policies established at headquarters.
- b) The headquarters maintains very loose control over the subsidiary and its operations.
- c) The headquarters coordinates subsidiary operations while subsidiaries make basic decisions.
- d) Other (Explain)

49. If your organization is a subsidiary, what areas are most controlled by the head office?

50. If your organization is a subsidiary, what areas are least controlled by the head office?

G. ADDITIONAL QUESTIONS

51. Do you have any written rules or regulations specifying the chief executive's levels of authority in making decisions?
(If the answer is yes, please try to get a copy. If the answer is no, skip to question 54).

52a. On a scale of 1 to 7 how importance do you consider these rules or regulations to your operations?

Not important							Very important
	1	2	3	4	5	6	7

52b. Please give reasons for your response to question 52a if the rating given is 1, 2, 6 or 7.

- 53. What other comments do you have regarding these rules, if any?
- 54. Do you have any comments regarding the composition of your board?
- 55. Do you have any comments regarding the powers given to your board?
- 56a. If you were to make changes to the composition of your board what would they be?
- 56b. Why or why not?
- 57. Do you have any other information that may be of interest to my study?

Closing remarks:

Thanks for your assistance in providing the data for my study. A summary of the results can be made available to you, if you so wish.

END

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FIN